2015 Year in Review: Scenic Vistas from Mount Stupid

David B. Collum
Betty R. Miller Professor of Chemistry and Chemical Biology
Cornell University

Email: dbc6@cornell.edu
Twitter: @DavidBCollum

“To the intelligent man or woman, life appears infinitely mysterious, but the stupid have an answer for everything.”

~Edward Abbey

Background

I am penning my seventh “Year in Review.” These summaries began exclusively for myself, evolved into a sort of holiday cheer for a couple hundred acquaintances with whom I had been affiliating since my earliest days as a market bear in the late ’90s, and metastasized into the Tower of Babble—longer than a Ken Burns miniseries—summarizing the human follies that capture my attention each year. Jim Rickards kindly called it “a perfect combination of Mel Brooks, Erwin Schrodinger & Howard Beale.” I wade through the year’s most lunacy as well as a few special topics while trying to find the overarching themes. I love conspiracy theories and detest detractors who belittle those trying to sort out fact from fiction in a propaganda-rich world. My sources are eclectic, but I give a huge hat tip to sites like Peak Prosperity and Zerohedge. If half of what they say is right, the world is a very weird place.

“Ninety percent of everything you read or hear is crap.”

~Sturgeon’s Law
“The amount of time you waste online doubles every 18 months.”

~Collum’s Law

In an e-mail in early April, I told a friend and Master of the Universe that I wasn’t grasping the year’s theme. He assured me the year was young, but I had a deeper angst. I eventually realized that I had ascended Mount Stupid (Figure 1) and may be heading down The Far Side. Whether we are talking Greece, the Middle East, monetary policy, bonds, domestic politics, or sex changes, I am baffled by it all. Maybe life in the third millennium is like a sci-fi movie: it doesn’t have to make any sense. So my qualifications to comment on geopolitics are not in dispute: I am an organic chemist, a clueless academic one at that. Nothing should inspire you to read on. But—a big Kim Kardashian butt—I have somehow managed to capture a readership.

Figure 1. Mount Stupid

Occasionally I get a few selfies with prominent players, airtime on Russia Today, and some ink in The Guardian and Wall Street Journal. All help keep the ruse going. As this review is being uploaded to Peak Prosperity and soon thereafter to Zerohedge (hopefully), I am scheduled to do an interview with Erin Aide on Russia Today. I offer just a little more elevator résumé disguised as a survey of personal events. My favorite interview this year was with a colleague and sponsored by Cornell. I did podcasts with the likes of James Kunstler, Chris Martenson, Ed Rankin, and Jason Burack. Four BTFD.tv episodes chaperoned by Bob Lehman included a solo shot, two with Eric Hunsader of Nanex, and the last as a threesome with Eric and Joe Saluzzi, founder of Themis Trading and author of Broken Markets, respectively. A gig at the Stansberry Investment Conference in Vegas landed me some free meals and a shared stage with some actual famous guys. (Porter Stansberry is a self-proclaimed huckster and, in my opinion, brilliant.) The title of my talk was “College Life: The Good, the Bad, and the Ugly.” It came out a week before Yale and Mizzou went batshit and mercifully hid behind a paywall while outrageously uneventful ideas triggered mayhem across college campuses. I even found my nose stuck in the tail end of
the Tim Hunt scandal, which I talk about herein. Last, I'm taking a bow for using a single Tweet to nip some corporate misbehavior in the bud.17 Ya gotta tweet ‘em right.

I draw inspiration from a Bloomberg headline:18

And with that, I am obliged to offer the following:

**Trigger Warning**
We face an epidemic of wusses, which is sanitized for “pussies,” which some believe finds its origins at pusillanimous. This document is laced with childish tripe, microaggressions, horsemeat, rat hairs, human DNA, central bankers, and presidential candidates. If I’ve already offended you, I apologize. (Just kidding. It only gets worse.) But you need not read on.

Presenting such a review poses a multitude of challenges. There are important topics from past years that remain important but will not be repeated. How many times can one rail on underfunded pension plans, unfunded liabilities, or a quadrillion-dollar derivatives market? These matters are important, but the plot line doesn’t change much year to year. I’m skipping right over Japan; it’s a basket case, but not enough has changed to spill some ink. Despite reams of accrued notes and links, I am light on the Middle East because nobody understands it (or eats parsley.) It’s that Mount Stupid descent again. I leave topics like global warming, mass shootings, and Israel versus Palestine to those who like to shout a lot. Other ideas manage to stay at center stage year after year. Compartmentalizing the topics can seem artificial. How does one separate broken markets from the Federal Reserve? Sovereign debt levels from bond markets? Government from civil liberties? It is also laced with blogger porn (quotes). Somehow 450 pages of notes, quotes, and anecdotes describing a web of interconnected concepts must be distilled into the “Year in Review,” all in a few short weeks. So let’s head to the choppers.
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Investing

Precious little of my portfolio changes most years. I began 2015 with the distribution shown below. Owing to downward adjustments in energy and metals prices and upward adjustments of putting savings back into those asset classes, my percent allocations remain about the same.

<table>
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<th>1/1/15</th>
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<tr>
<td>Precious metals etc.:</td>
<td>21%</td>
</tr>
<tr>
<td>Energy:</td>
<td>10%</td>
</tr>
<tr>
<td>Cash equiv (short term):</td>
<td>60%</td>
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<tr>
<td>Standard equities:</td>
<td>9%</td>
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The total change in my net wealth over the year was -5%. This results from downdrafts in physical gold (-11%), gold equities (-19%), and energy (-21%). The standard equities moved little (-1%). The huge short-term fixed income and cash buffer attenuate even the most abrupt upward and downward movements. A net savings of 24% of my gross income elevated the total wealth accumulation by 1%.

My 16-year return beginning 01/01/00—a wild period to say the least—is an annually compounded 7%. Although this handily beats most investors, the huge commodity rout starting last year and precious metal rout beginning in 2011, which contrasts sharply with a 170% run in the S&P since 2009, has eroded what was once a huge lead. For a little perspective to the braggadocious shortlers, however, gold is up approximately 300% and the XLE up 128% over the 16-year period compared with only 46% by the S&P (ex-dividends). I am expecting to see many of the extreme moves over the last few years reversed, but only time will tell. In the infinite loop we loosely call markets, there is a relentless debate:

<table>
<thead>
<tr>
<th>Market winners: “See. I told you so!”</th>
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<tr>
<td>Market losers: “Just you wait!”</td>
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I have been on both sides of that debate (preferring the former). I believe we are still in a secular bear market despite the evidence accrued over the last six years. For almost 20 years I have subscribed to a “three legs down” model of secular bears that translates as follows:

| Phase 1 (2000–03): a flesh wound |
| Phase 2 (2008–09): damaging pain |
| Phase 3 (20??–??): deracination of hearts, minds, and souls |

It’s the third leg down that causes generational changes in attitudes. Let me be clear, however. I have an exit strategy—a strategy to repot myself—from my bearish conundrum (assuming, of course, that I am not neuroplasticly too damaged to react.) I was deeply moved by *A Random Walk Down Wall Street* (see Books). Author Burton Malkiel convinced me that under most circumstances average blokes cannot beat the markets through active management. My premise
is that the next recession will be a barn-burner—a category 5 shitstorm—that ushers in Phase 3. If the Fed fails to juice the markets (unlike in ’09), the markets will finally overcorrect and drop well below fair value. (The Fed snuffed this overcorrection in ’09.) When the next recession is in full bloom—when it is so obvious that even economists are writing about it—I will once again try to enter the markets. I will be taking my cue from Tobin’s Q (discussed later in Broken Markets). I started buying at fair value in ’09, figuring I would average down, but the markets jumped away from me too quickly. I will again start buying at fair value, be seriously buying at well below fair value, and wishing I had saved my ammo at rock bottom. Hopefully, at this point of maximum remorse, I will have reconstructed a long position from the spolia and asset carrion.

“There are segments of the perma-bear community that literally live their lives on the lunatic fringe.”

~David Rosenberg, chief economist at Gluskin Sheff

What will I buy? Probably a global index fund, but I have a few specialized ideas. Russia interests me as a scratch-and-dent opportunity. I recently began buying token quantities of closed-end Russian mutual funds (RBL, RSX, and TRF)—0.2% of my total assets—simply to put them on my radar. TRF will be liquidated as of December 18, 2015, which has a bottom feel to it. Commodity funds were locking their doors on me 15 years ago. Iran and parts of Persia look interesting, although it is legally difficult to invest there right now. How about Africa? Not a chance. Hernando de Soto (The Mystery of Capital) convinced me that Africa’s problems are deeply structural.

The Economy and the Next Recession

“I think there is more of a risk of a depression than a recession.”

~Ray Dalio, Bridgewater Associates

“I think we could have five or 10 years without a recession.”

~Paul McCulley, May 2015 Strategic Investment Conference

Thousands of economists see low unemployment, but 100 million people (41% of working-age adults) not in the workforce disagree. On January 1 got into a minor Twitter disagreement—a Twiff?—with a confident young economist, which led to a gentlemen’s bet:

George Pearkes: We will not see a recession starting before 2017, in my opinion. I could well be wrong of course.

Me: OK. I’ll take now.
My cockiness stems from a 1991 survey described in John Mauldin’s *Code Red* in which a poll of 53 economists put the probability of a recession that year at 3%, ignoring the 15% probability for recession in any year. The final arbiter of recessions—the NBER—eventually showed that the poll had been taken *five months into a recession*. Economists use the tools of science, but they are still tools. (How ambiguous.) The bet got edgier in April when Barry Ritholtz asked me which indicator I was using. I suggested it was many indicators, which promptly ended the discussion. I wasn’t alone, however. Many pundits not endorsed by the mainstream were reporting negative first derivatives. Even Bank of America seemed to lack optimism—but then predicted no recession for 10 years. That’s just stupid.

> “This drop in oil prices, this drop in industrial metal prices, this is not good. It’s a canary in the coal mine that something is not right in the global economy.”

~Stephen Schork, *The Schork Report*

As I reminded Barry, a number of indicators *were* heading south. Wholesale inventories began surging at the end of 2014 (Figure 2), reaching an all-time high by the second quarter.³⁶ Energy and energy sector jobs were getting annihilated. Commodities (not just energy) were getting crushed. Commodity routs often precede recessions. The Baltic Dry Index had turned down (Figure 3), indicating a global slowdown. The Chicago PMI crashed to 45.8 verses expectations of 58.7, reaching the lowest level since June 2009.²¹ U.S. labor participation was still dropping, undermining all claims of strong employment. Exports and U.S. factory orders were headed south (Figures 4 and 5.) Vehicle sales dropped in January. Q1 GDP “missed economists GDP targets” by fivefold to the downside.²² (Note to economists: your predictions miss the facts, not vice versa.) Credit was noticeably tightening by May. Consumer spending dropped as steeply in late spring as in the 2008 financial crisis.²³ By April, Goldman was claiming four months of contraction.²⁴ A survey of Wall Street forecasters blamed the slowdown in the first quarter on winter weather and the West Coast port slowdown.²⁵ Of course, we have winter weather *every* winter, and the port slowdown might be a consequence rather than a cause. In a bit of journalistic genius, one headline noted “plant closings could make jobless claims jumpy.” The often-overlooked story is that Caterpillar sales had been quietly contracting for almost three years.²⁶ This undoubtedly reflects emerging market problems, but it’s also our problem.
Figure 2. Wholesale inventories (shading are recessions)

Figure 3. Global economic activity

Figure 4. U.S. exports (shading are recessions)

Figure 5. U.S. factory orders (shading are recessions)

“This goes down as the sixth longest expansion since the Civil War.”

~David Rosenberg, chief economist at Gluskin Sheff

“Business cycles don’t typically die of old age. They are usually killed off by higher interest rates, a financial crisis, or some other shock…”

~Greg Ip, Wall Street Journal
That is some crisply worded gibberish. Yes, Greg, and people die of coronary heart disease, strokes, and organ failure rather than old age. Maybe we missed a recession by the technical definition and Pearkes was right, but there is a suspicious odor emanating from the basement. The yield curve can’t fully invert with rates at zero, but it sure flattened (Figure 6).27 The economy seems sick; capital expenditures—capitalism’s seed corn—have been largely sacrificed to buy back shares (vide infra). Pensions are being left underfunded to maximize profits per share. How underfunded will they be at the next downturn? Overstock.com’s CEO Jonathan Johnson has gone TEOTWAWKI and stockpiled $10 million in small-denomination gold coins to meet payroll and three months of food for his employees.28 I’m not that bearish.

Figure 6. Two years of yield curve flattening

Broken Markets

“These markets are all rigged, and I don’t say that critically. I just say that factually.”

~Ed Yardeni, president of Yardeni Research, Inc.

“Whether it’s QE in the West or China’s recent regulatory intervention in the aftermath of the bursting of its equity bubble, market manipulation has become global in scope.”

~Stephen Roach, Yale University and former executive director of Morgan Stanley

The markets began breaking way back when Alan Greenspan went narcissistic and accepted the dual mandate to (1) preclude equity price discovery, and (2) subvert the business cycle. Let’s look at the bomb we’ve strapped on by first considering valuation. Goldman put price–earnings (P/E) ratios in the 98th percentile. Not a problem. The Fed model asserts that equity prices should correlate inversely with interest rates, which are at ridiculous multi-century lows. As the Fed jams rates to zero in the limit, the composite P/E ratios should
go to infinity, right? (Hey: I didn’t invent the model.) Now let’s drop some acid and ponder Fed chair Janet Yellen’s recent warning:

“Potentially anything—including negative interest rates—would be on the table. But we would have to study carefully how they would work here in the U.S.”

What does the Fed model predict now? Cliff Asness nicely explains why we should fight the Fed model. Common sense says fight the Fed model. David Einhorn says negative interest rates are like taking the square root of minus one.

“Nobody ever talks about the incentives to lie about the earnings.”
~Benjamin Friedman, Harvard University

Apparently Harvard doesn’t have Internet yet. In any event, guys with market experience have alternative back-tested metrics for market valuations with historical comps. Warren Buffet’s favorite, the market cap-to-GDP ratio (Figure 7), began the year at all-time highs. The understated Mr. Buffett noted, “if we get back to normal interest rates, stocks at these prices will look high.” A regression to the mean would require a >40% equity haircut. Regression through the mean? Priceless. Lest we forget, folks, mathematically you must spend half your statistically weighted time on each side of the mean.

![Figure 7. Buffett’s valuation model 1950-2015](image)

The always popular Shiller P/E ratio (CAPE) smooths earnings over 10 years and began the year looking for a 40% correction to reach the historical mean. These nosebleed levels were surpassed only by the blackout levels in the tech bubbles of 1929 and 2000. Societe Generale has a proprietary guesstimate that predicts a “30% correction if all goes well and 60% if China hits a snag.”

What are the odds of that? Mark Spitznagel likes Tobin’s Q (Figure 8), which is essentially the price-to-book ratio, and he assured me “it is the cleanest metric.” It’s not at a record level but is massively above the norm. Tobin’s Q reached fair value in 2009 and bounced like a golf ball off a cart path. After the ’09 crisis,
Jeremy Grantham lamented the remarkably brief stay at fair value with deeply discounted bargains rare and fleeting at best. Even more interesting, check out Tobin’s Q in 1938—the year the Fed sinned by tightening monetary policy. Supposedly this little faux pas—French for “f*** up” (asterisk speak for “fuck up”)—elicited a belated apology from Ben Bernanke to Milton Friedman. I didn’t realize Ben did it or that Milton tried to stop him. In any event, Tobin’s Q had soared: the Fed had blown yet another frothy equity splooge with raging pinkeye. Maybe it had to act. Maybe, just maybe, the modern Fed is deathly afraid of being forced to act again.

Figure 8. Tobin’s Q 1900-2015

These plot-rich approaches to looking at valuations with those fancy schmancy, small-fonted x- and y-axes and hard data may be too confusing. Let’s just get the sage advice of grizzled gurus:

“On balance there’s no margin of safety.”
~Mario “The Bull” Gabelli, founder of Gamco Investors Inc.

“We’re in the middle of a disastrous market mania ... historically, these kinds of gaps get closed in one of three ways: by revolution, higher taxes, or wars. None are on my bucket list.”
~Paul Tudor Jones, Tudor Investment Management

“The good times are over.”
~Bill Gross, Janus Funds

“The median New York Stock Exchange stock is currently at a postwar record high P/E multiple, a record high relative to cash flow, and near a record high relative to book value!”
~Jim Paulsen, Wells Capital’s perennial bull
“[G]lobal financial markets are more distorted than ever before.”
~Felix Zulauf, Zulauf Asset Management and Barrons Round Table

“Sadly, I don’t think anybody’s capable of telling you precisely how and when the whole thing will come unstuck. Nevertheless, you know that at some point, it has to.”
~William White, Bank of International Settlements

“Markets will discover that they have been pushing asset prices to an excessively high level, and there will be a major downward shock to asset prices.”
~Mervyn King, former governor of the Bank of England

Here we are: ridiculous valuations for the third time in two decades, and you’ve been warned. You’ve been warned by Jim friggin’ Paulsen. The requisite leverage was provided by central banks worldwide. What makes this all so absurd is that there isn’t even a good narrative bias. The 1995–2000 mania was based on a very cool, world-changing tech revolution not unlike the tech revolution of the 1920s. Being duped by the narrative bias was forgivable. The current global equity run, by contrast, is based on the assumption that a bunch of second-rate economists (but first-rate bureaucrats) running monetary policy using third-rate Gaussian models have our backs covered. And get this: they are going to help us with controlled demolition of our currencies because . . . wait for it . . . inflation is good, and they know exactly how much is optimal because they are omnipotent.

You’ve all seen some variant of the plot of margin debt versus equity prices in Figure 9, unless of course you’ve been hanging out in the basement of
the Eccles Building with Governor Boo Radley. It is collective debt accrued within the entire system, however, that fuels bubbles (Figure 10). In this grand game of Texas Hold’em, the Big Money is all-in, waiting to distribute the equities to retail investors. But this ain’t gonna play out like a typical blow-off top; the retail investor is broke and broken. As the 75-month-old expansion stretches 30 months past the historical mean, the Big Money is the dumb money. I actually heard a bull say, “I am smart enough to get out early.” Ding. Ding. Ding. All those smart guys will be exiting through a keyhole if history is a guide. In the meantime, keep listening to the sell-side analysts: they have called every equity rally since the beginning of markets.

“At particular times a great many stupid people have a great deal of stupid money.”

~Walter Bagehot, clueless geezer

Figure 9. Margin debt and S&P 500 price 1990-2015

Figure 10. Debt showing the near fatal blip

Doom porn aside, the markets seemed rather typical. Ken Griffin of Citadel brought in $1.3 billion owing to high-frequency earnings. The Swiss National Bank (SNB) picked up the slack in equity markets by increasing its exposure to U.S. equities by 40%. The SNB is ahead of the crowd by buying the dip before it appears. Very sneaky. With timing like a Swiss watch, they even bought pre-dip Valeant, the pharma that largely went bust on corporate
shenanigans.\textsuperscript{32} A fake leveraged buyout (LBO) offer triggered a 22\% short squeeze on Avon Products and was good for a few laughs.\textsuperscript{33} The dollar flash crashed 4\%. Gilead did a 10\% flash crash for a few minutes.\textsuperscript{34} Commodity trader Glencore was said to be doing a Lehman, but that was to be expected in a commodity rout.\textsuperscript{35}

Meanwhile, bargains were to be had for those with a discerning eye. In San Francisco, shacks that, if they weren’t so run down, would normally be sold in the parking lot of a Home Depot are selling for $1.2 million (Figure 11).\textsuperscript{36} Closets under stairwells in London are renting for $700 per month.\textsuperscript{37} The pinnacle of value investing, however, appeared in the art market (Figure 11) when Geriatric Patriot was scooped up for a mere $1.5 million\textsuperscript{38} and Big Fat German Chick on Sofa was wrestled down by an eager investor for $58 million ($100K per pound).\textsuperscript{39} You want classy art, you gotta pay up. And if those gems are unappealing, you could have dipped your toe into an IPO of a company searching for Sasquatch.\textsuperscript{39a}

![Figure 11. $1.2 million (left), $1.5 million (center), and $58 million (right).](image)

The good times seemed to be long in the tooth as fears of a Fed rate hike began to exact their toll. Stresses in the global economy (see The Economy and the Next Recession) finally registered on radars; equity markets began to shudder. The economic and asset price cycles had been diverging for some time (Figure 12). Companies like Intel and Coke started assuming lower tax rates (and buying back shares) to juice their per-share earnings.\textsuperscript{40} The markets were narrowing: Amazon, Google, Apple, Facebook, Gilead, and Disney accounted for more than 100\% of the gains in the S&P.\textsuperscript{41} Deterioration in leverage and credit conditions by midsummer foreshadowed trouble. We started to see oddities like Apple flash crashes that could only be stemmed by phone calls from CEO Tim Cook to market maven Jim Cramer.\textsuperscript{42}
Something was fundamentally wrong, however, and markets began seizing up. Sites like Charles Schwab went dark. On July 8, 2015, the NYSE froze three times for four hours, Zero hedge and the Wall Street Journal went dark, and United Airlines grounded its fleet. (United grounded its fleet three times.) Seems like cyber problems to me. I suspected the Russians when nobody blamed them. By August, the markets were fishtailing wildly. Despite little net change in direction, triple-digit intra-day swings became the norm. Zero hedge estimated that in a single day the triple-digit upward and downward moves of the Dow spanned 4,500 points (Figure 13). The concern was not how far the market moved but how much it was moving to go nowhere.

“It ain’t the meat, it’s the motion.”

Southside Johnny & the Asbury Jukes
Share Buybacks and Balance Sheet Rot

“Stock buybacks and LBOs are the bastard offspring of the IRS and Federal Reserve.”

~David Stockman, Director of Management and Budget under Reagan

Corporate debt is a hot topic this year. Before the 2008–09 calamity, U.S. nonfinancial corporate debt teetered at $2.6 trillion dollars. It is now $5.8 trillion (Figure 14). The reported $2 trillion of corporate “cash on the balance sheet” constitutes only 30–35% of the corporate debt. So much for that meme. The high-yield debt placed in peril by the collapse of commodities is putting serious pressure on the high-yield (junk) bond indices (Figure 15). GM and Chrysler are way out on the subprime yield curve, a recession would be poorly timed, which is precisely why it will arrive soon. Auto loans are pushed out 67 months. Liquidity in the market is faltering—a sell-off could get ugly.

![Figure 14. Share buybacks and corporate debt 1990-2015](image)

![Figure 15. High-yield (junk) bond index since April](image)

So what’s all this debt being used to fund? Share buybacks, of course. More is spent on share buybacks than on capital expenditures (Capex). Companies are making corn dogs from their seed corn. The record buying spree is twice that of the early months of 2014. Cisco Systems, toting a market cap of $150 billion, will have spent $90 billion on stock buybacks by the end of 2015. GE announced a bold 3-year, $50 billion share buyback program to “offset lower
earnings” by GE Capital. How buybacks offset bad earnings is beyond my imagination. GE Capital subsequently wrote off over $16 billion of those “lower earnings.” And it’s gone. GE Capital is now for sale, presumably to “unlock shareholder value.” Wall Street loves obfuscating euphemisms.

Citi analysts noted that “if leverage is going up today because it’s funding tomorrow’s growth that might not be a bad thing. Unfortunately, that’s not what’s going on.” Companies reaching for returns on their cash have found another overpriced investment on which to squander their shareholders’ value—other companies’ bonds. The sellers of these corporate bonds are reputed to be using the proceeds to . . . wait for it . . . buy back shares of their companies! This is financial engineering that would make Escher proud.

In 2007, S&P 500 firms allocated more than one-third of their cash to buybacks just before the S&P 500 plunged by 56%. Dumb money buys the tops. The new-era corporate dip tip buyers fund their purchases in a variety of ways. Hewlett-Packard announced almost 100,000 layoffs to foot the bill (whatever “foot the bill” means). The S&P has collectively let pension funds slip to approximately 80% funded. If only it was that simple. The S&P is “returning” 104% of earnings as dividends and share buybacks. To achieve this relativistic miracle, companies are using credit—lots of credit. GM announced an $5 billion share buyback to keep an activist investor away from the board, and, ignoring the fact that the company has $45 billion in debt, boldly promised that all cash over $20 billion would be used to reward shareholders. Qualcomm borrowed $10 billion to “return some of its $29.5 billion cash stockpile to shareholders.” What does that even mean? As you can see, the financial engineers should work on their timing (Figure 16). Looks like the dumb money to me.

It was Peter Lynch who spawned this zombie apocalypse. (BTW-Tie the dearly departed’s shoelaces together.) Decades ago he declared that companies buying back shares know their shares are undervalued. When insiders are buying, you should be buying! Well that’s a quaint notion that metastasized into financial engineering, allowing top execs to jacked up their stock options by driving up the
share prices. How about dividends? Come again? They decrease the value of stock options, so they are not so popular among options-entitled executives.

There are many layers to this magical onion. If Eugene Fama was correct, an efficient market would reduce the P/E ratios to account for the rotting imbalance sheet; leveraged share buybacks should be a zero-sum game (like stock splits). With almost a third of the “buying pressure” in the S&P coming from share buybacks, however, markets are not very efficient. Let’s take this notion to the limit. Imagine you borrow enough to buy up almost all the shares. The last share represents ownership in a company whose assets are entirely offset by debt. The P/E ratio of that share will head to zero in the limit. So who owns the company? The creditors! Yes indeedy, leveraged share buybacks constitute a sale of the company to creditors. It’s an LBO. Long before the LBO is complete, however, corporate debts that soared with century-low interest rates will lead to an 80-car pileup. Shale companies are being forced to re-issue shares—the reverse of a share buyback—at fire sale prices to cover their debt payments. A bond crisis will force an analogous deleveraging across the broader equity markets. The flawed TINA—There Is No Alternative—equity model will morph into TINWA—There Is No Worse Alternative. But until then, you just keep buying shares because insiders are buying, and they know what’s best.

**Gold and Silver**

“Growing numbers of investing experts have been declaring that gold is a bubble: an insanely overvalued asset whose price is bound to burst. There is no basis for that opinion . . . [gold miners] seem cheap—based not on subjective forecasts of continuing fiscal apocalypse, but on objective measures of stock-market valuation.”


“Let’s Be Honest About Gold: It’s a Pet Rock”


Jason Zweig is no idiot, but he may be a world-class contrary indicator. The goofiest gold bug award goes to a guy who tried to gold-plate his testicles—pelotas de oro. He was unsuccessful if surviving was his goal.63

“If you don’t own gold . . . there is no sensible reason other than you don’t know history or you don’t know the economics of it.”

~Ray Dalio, Bridgewater Associates

Ray Dalio runs the biggest hedge fund in the world. I sense he is a reluctant gold enthusiast, as am I. What are us VAXers hedging? Calamities such as inflation and other forms of mayhem. Of course, the detractors note that any idiot can see there is no inflation, and gold doesn’t hedge it; equities do. I would disagree in part. By example, shovels and bulldozers both move dirt, but it
would be a mistake to confuse the two. Similarly, both equities and gold hedge inflation, but it would be a mistake to confuse them as well. Gold hedges calamity, which is considered very rare unless, of course, you live in most countries around the world now or are a student of history. Gold is a bet against inept bureaucrats who happen to have the monetary nuclear launch codes and seem to be fumbling furiously at their keyboards. It is a bet that excessive debt and faltering economies will result in both foreseeable and unforeseeable problems. It is a bet that the War on Cash (vide infra) will soon become a hot war against the peasants (us) via absconding with civil liberties and wealth. Gold is a bet that the current system is at considerable risk. Risk is not about what happens but about what could happen and what the consequences could be. Russian roulette is statistically a 5:1 winner . . . until you lose.

“Buying gold is just buying a put against the idiocy of the political cycle. It’s that simple.”

~Kyle Bass, Hayman Capital Management

The coyote-like plummet in gold starting in 2011 has slowed to trickle, which has prompted me to spend approximately 20% of my gross salary on physical gold this year (my first purchases since my 1999–2005 binge.) Of course, the gold miners are priced like pillows at a thrift store, and investors are plastered across milk cartons. Maybe this is a bottom, but the inability of management to make money is epic. Harmony Gold is trading at 16% book value, but such numbers are often the costs of assets purchased in haste that have not yet been written down. Rumors of corporate insider buying in the industry in a profoundly beaten-down sector is arguably bullish, but I am leaving the gold equity “buying opportunity of a lifetime” (Figure 17) to others; my shrunken stash of equities is it for now. Maybe I just called the bottom.

![Figure 17. Gold-to–gold equities ratio, 1996–2015.](image)

Juicy stories always keep the bulls and bears shouting at each other. There appears to be a scrum by sovereign states to get their gold away from one another. Venezuela started the whole repatriation mania in 2011 by retrieving their sovereign gold, only to be squeezed into a forced liquidation by hyperinflation, which is the ultimate insult. Germany is said to have gotten from the U.S. 120 tons of the 700 tons demanded in 2014. (The German gold repatriation social movement actually started with one crazy German.) It appears that the U.S. was too busy providing the Dutch with 122 tons covertly.
(Shhh! It’s an Internet secret.) China finally announced its newest gold tallies at only 1,600 tons. I don’t believe the numbers, but that tonnage would be bullish if true because it means the country has a long way to go to achieve the estimated >8,000 tons needed to make it a Forex superpower.

India is a little schizo, putting barriers (tariffs) to block gold importation and then removing them. I asked Shashi Tharoor, former deputy director of the UN, about it, and he gave me the party line: they want investment not gold hoarding. India attempted to use gold as collateral for loans; it’s either a tacit gold standard or a fractional reserve Ponzi scheme. In a Monty Python “bring out your gold” solicitation, India rounded up a grand total of one kilogram in the first month. That’s the take of a good Indian wedding.

Austria repatriated 110 tons of their gold from the Bank of England. Zerohedge accused Spain of “repatriating” gold from Catalonia right before a Catalanon secession vote in what seemed like an outlier even for Zerohedge. The story was validated when officials denied it. Rick Perry took Kyle Bass’s advice and took possession of a billion dollars worth of gold for the Great State of Texas. Texas also put in an anti-seizure law just in case the paranoid wingnuts are right. Retail investors tried unsuccessfully to repatriate their gold from gold supplier Tulving to no avail; court proceedings are scheduled. Let us not forget that allocated ingots—ingots owned by investors—stored by MF Global clients got repatriated by JPM. Counterparty risk includes both insolvency and criminality.

“The price of gold is largely determined by what people who do not have trust in [the] fiat money system want to use for an escape out of any currency.”

~Fed minutes, 1993

Where is the gold coming from? Evidence suggests a combination of sovereigns, global mining operations, and possibly GLD (reputedly losing 48% of the stash since 2012). I have doubts GLD actually has gold and, even if it does, and have argued that liquidation of shares for physical gold by the global megabank cartel (bullion banks) is bullish not bearish. We must remind ourselves that somebody is selling as well, but that argument falters when the seller is the Perth Mint and its head says business is unprecedented. Reported gold shortages at the London exchanges coincided with shrinking supplies at the Comex (Figure 18). The Comex got down to several hundred kilograms—27 bricks—of available gold, which was followed by a rumored midnight JPM bailout. The stories about the Comex shortages are provocative, but they could be natural ebbs and flows. Similarly, a tenfold increase in JPM’s gold derivatives book (and Citi’s silver derivatives book) is very provocative and very difficult to grasp.
If one subscribes to a model that the gold market is rigged—actually, all markets are rigged—one can easily find confirmation (bias). Sell-offs often begin with derogatory press releases, and they ramped up this summer. Gold was suggested to be a “pet rock” and gold enthusiasts to have “rocks in their heads.” There were ludicrous claims that Indian dealers were offering discounts per ounce to offload their inventory and because it was raining a lot. (No kidding.) Sixteen analysts—16 of them—said gold would drop below $1,000, Deutsche Bank said it would reach “fair value” at $750 (whatever fair value means), and “a study” suggested $350 was dead ahead. On queue, Jeff Christiansen denounced shortage theories. The gold story was said to be based on conspiracy theories that were “patently untrue.” There is no hyperinflation, so gold bulls are brain-dead idiots. Yes, we are.

"The sudden debunking of gold in the financial press is circumstantial evidence that a full-scale attack on gold’s function as a systemic warning signal is under way."

~Zerohedge

We’ve seen this plot line before. After the bad press, which provides cover to convince the regulators all is fair and square, the smackdowns are close behind. On July 7, somebody purged $1 billion of gold and silver in one futuristic wad. Some thought it was tied to the Citi and JPM precious metal derivatives positions. During the evening of July 19, while the western world slept, $2.7 billion of paper gold struck in one second. That was followed by another hard sell, effectively crushing the bid stack. After market seizures and dust settling, gold was $50 cheaper. A $26 flash crash of gold derived from “a huge dump of bullion, equivalent to one-fifth of a whole day’s trade in a normal session” in China occurred within two minutes. ANZ Bank analyst Victor Thianpiriya
noted “the nature, size, and timing of the heavy selling” suggests someone “was taking advantage of low liquidity.”\textsuperscript{96} Five tons sold on the Shanghai Gold Exchange (SGE) in two minutes; the market only averages 25 tons a day. Meanwhile, on the other side of the globe, the Comex witnessed 7,600 contracts traded in the very same two-minute window.\textsuperscript{96} What are the odds, eh? Michael Krieger calls such behavior brazen market manipulation and “peak condescension.”\textsuperscript{97} The ultimate smash came in the wee hours of the morning on the Friday after Thanksgiving—Black Friday—when everything goes on a deep discount. A couple of billion dollars of gold derivatives drove the price of gold down in four distinct plunges (Figure 19) during peak market illiquidity.\textsuperscript{98} That’s classic bear raid stuff.

![Figure 19. Black Friday massacre on gold.](image)

Gold market manipulation was hung on a couple of patsies—Nassim Salim and Heet Khara—by the CME using Nanex data.\textsuperscript{99} Patsies are often foreigners ‘cause xenophobia sells (see Patsies and Scapegoats). Mirus Trading was soon implicated in gold market rigging and fined a 1.0 Hillary ($200,000).\textsuperscript{100} The Department of Justice opened a case, which will sit dormant.

What is the bullish case for gold? For starters, it is claimed that the futures market—the so-called paper gold market—is currently leveraged over 200:1.\textsuperscript{101} Seems like a single bold hedge fund could leave 99.5% of customers holding worthless claims. Cash settlements are legal but may not be satisfying when the fur flies. I do not, however, buy into the notion that premiums and shortages of gold or silver coins constitute anything more than a coin shortage. Some claim they are seeing ingot shortages. Wake me when that is confirmed.

Gold bears often argue that rising rates will crush gold, an assertion that flies in the face of history. The most pronounced upward moves occurred while the Fed was tightening (1971–74, 1976–80, and 2001–07).\textsuperscript{102} Smart guys like Einhorn, Bass, Stanley Druckenmiller, and Grant have placed big bets that the fatal conceit—the belief that a complex system can be engineered rather than left to evolve—is circumnavigating the globe.
“Signs are emerging that the long Nikkei/short gold trade, which has done so much damage to gold’s price, is becoming problematic.”

~Paul Mylchreest, ADM Investor Services International

The gold community has serious confirmation bias—the tendency to disproportionately weight the data that supports a conviction. Confirmation bias, however, plays dichotomous roles: (1) it blinds you from the truth by confirming your hypothesis at any cost; and (2) it provides support while you white-knuckle an unpopular, but quite possibly brilliant, investment. When I entered gold in ‘99 I would read anything that told me I wasn’t alone. Time will tell which category gold buggery falls into this time around. Gold enthusiasts will continue to draw inexplicable scorn for simply attempting to mitigate the risk of state-sponsored insanity. A little decorum please. We’re in this mess together.

Energy

“We keep thinking that lower energy prices are somehow good for the economy. That can’t be, because energy prices or commodity prices in general don’t drive economic growth. Economic growth drives commodity prices.”

~Stephen Schork

“If oil prices stay below $90 per barrel for any length of time, we will witness massive fiscal squeezes and regime changes in one or more of the following countries: Iran, Bahrain, Ecuador, Venezuela, Algeria, Nigeria, Iraq, or Libya. It will be a movie we have seen before.”

~Steve Hanke, Johns Hopkins University and the Cato Institute, 2014

“I hope it does not go to $40, because then something is very, very wrong with the world, not just the economy. The geopolitical consequences could be—to put it bluntly—terrifying.”

~Jeff Gundlach, Doubleline Capital and New Bond King

Ouch. I asked Steve about oil under $40 and he noted that “the commodity price rout has created an unsustainable blood bath that won’t last forever. Markets will see to that.” Also, Jeff: could you possibly rephrase that? Maybe a little sugarcoating—possibly some euphemisms? The energy sector began to collapse last year when the Saudis overtly jawboned the price of oil lower (Figure 20). Seemed obvious (to me) that they did it to hurt Putin while we agreed to deal with the emerging ISIS threat, which supposedly we now support . . . but I digress. The jabronis who hatched this plan—oddly referred to as the intelligence community—were not tasked with assessing the long-term consequences to the commodity sector at large, the U.S. energy industry, the
global economy, or world peace. You guys grazed Putin—a flesh wound really—and at what cost?

![Figure 20. Price of oil](image)

Although I had expressed concerns that the energy sector was vulnerable to the credit markets,\(^7\) I was wildly bullish. (I still am but must admit to having to shift my timescales out a bit . . . OK, a lot.) I also did not grasp the role of the energy sector on the credit markets. I thought nobody did, but that’s not true. Todd Harrison discussed the risk of dropping oil prices in 2006.\(^{104}\) Probably others did too, and I just wasn’t listening. Everybody gets it now.

So what are these consequences? There were 100K oil industry layoffs worldwide by February and an estimated 250,000 by November.\(^{105}\) Alaska gets 90% of its revenue from oil taxes. Alaskans can see bankruptcy from their front porches. About two years ago, friends at University of Montana and Montana State were complaining that Montana legislators were refusing to spend the profits. The legislators were showing a little higher-order brain function after all, eh? The oil frackers hit the wall especially hard given that high prices are needed to break even. We owe the Fed for keeping the losers drilling unprofitably, leading to this mess. You can see the influence of the collapse on the XLE (Figure 21). I don’t think the energy equities have really corrected yet, however, presumably owing to the use of hedges rather than outright selling. Coal miners such as Alpha Natural Resources and Patriot Coal are going belly-up as well. Heads up: Einhorn likes Patriot Coal for the natural gas reserves (vide infra).\(^{106}\)

![Figure 21. XLE, January 1 to December 4, 2015.](image)
The world seems to have underestimated how structurally important collapsing crude prices are to global finance. High-yield energy debt (junk bonds) lost a whopping 16.1% between July and September alone. The yield reachers are feeling some pain. The most severe consequences are that oil-producing economies in developing countries are both losing their income streams and getting crushed, while the spiking dollar is obliterating dollar-denominated debt. There is a huge feedback loop: shortages of petrodollars are driving the dollar even higher. Kazakhstan let its currency drop 25% in one night. Petrobras and Brazil’s “century bonds” are going to hell fast. Whocouldanode? The Carlyle Group’s energy holdings in a flagship fund collapsed from $2 billion to $50 million. I imagine leverage was at play. Norway’s gargantuan $830 billion sovereign wealth fund is in forced liquidation. Commodity trading firm Glencore scrambled to convince markets that it’s liquid, which confirmed it was not. Glencore appears to have $100 billion of debt and is said to be the next Lehman. (Deutsche Bank detractors think it is the next Lehman, so the race to the bottom is on.) Some are calling this commodity rout “reverse QE” (reverse quantitative easing) or “quantitative tightening” because it is fighting central bank efforts to trigger the desired inflation. The quest for inflation by central banks is morally vile.

As they say, however, the secret to low prices is low prices. Rigs are being taken offline as expensive energy sources become a liability. Oil trading guru Andrew John thinks shale oil output will moderate this year as production peaks in 2016. So let’s wrap our brains around this mess: the U.S.’s goal to attain energy independence is going to be crushed by emerging market debt crises? That’s a bit twisted, wouldn’t ya say?

Some see a silver lining in the demise of the frackers. California frackers are consuming more than their share of fresh water during an epic drought. Water rationing excluded the frackers. Claims that fracking causes earthquakes don’t make sense to me at all—they would relieve extant stresses. During a discussion of oil fracking, Einhorn excluded natural gas fracking from his shitlist, noting that “natural gas frackers . . . are globally competitive low-cost energy producers with attractive economics.” Obsess over his recent (negative) returns at your own risk. The energy equities are giving me restless leg syndrome, but I am waiting for the next full-blown recession-induced sell-off.

**Personal Debt**

“Central banks have sought to address ‘under-consumption’ . . . how many people do you know who voluntarily under-consume?”

~Paul Mylchreest, ADM Investor Services International

“The excess liquidity has manifested itself in surging levels of subprime auto loans, student debt, corporate share repurchases, rising levels of margin debt, and record levels of mergers and acquisitions.”

~Lance Roberts, Chief Strategist and Editor, Clarity Financial
“One-third of Americans have no financial plan.”

~Eddy Elfenbein, author of Crossing Wall Street blog

And the other two-thirds are planning to fund their retirements through state lottos, crowdsourcing, and “working till I drop.” On this final point, an estimated 80% of all retirements are out of the control of the retiree, coming in the form of health problems and layoffs. I have railed on personal debt and profoundly deficient retirement savings. The problem has been building for decades and will play out for decades. When the top-heavy markets correct, a serious update on the situation may be in order. For now, let’s just peek at a couple of 2015-specific stories.

“We also know you shouldn’t have taken out that large second mortgage during the housing boom to fix up your kitchen with granite countertops. You’ve been working very hard to pay off this debt and we admire your fortitude. But these shocks seem like a long time ago to us in a newsroom. Is that still what’s holding you back?”

~Jon Hilsenrath, Wall Street Journal, gettin’ down and talkin’ trash

Hilsenrath wrote an open letter to consumers about their unwillingness to spend. It was pure tongue in cheek and seriously tone deaf. Many others could have pulled it off, but Jon is “the Fed’s bitch”—its mouthpiece—and he got the blood eagle sans Valhalla. The ruction began. Comments totaled in the thousands, all negative. Bloggers had a field day. Hilsenrath tried to recover to no avail.

Down to business. It is said that if you have $10 in your pocket and no debt, you are better off than 25% of adult Americans. Thirty million Americans tapped their retirement accounts prematurely this year. Why? Because 40% of all American households spend more money than they make each month. Fifty-one percent of American workers made less than $30,000 last year. That means that the middle class—more appropriately called the median class—is making $15 per hour. How do you have a financial plan making $15 per hour with a family? Auto loans are soaring, and they are subprime ugly. Ally Bank reports 20% delinquencies, and that bank certainly knows delinquencies, having done a few itself. Auto loans may be too small to be systemic to banks, but people losing their cars will experience systemic risk (Permageddon™). In short, consumers are broke, and they are going to stay broke. Any Gaussian-driven economist thinking the rational consumer is still resilient is clueless. Personal balance sheets have now corrected the real estate froth but have a very long way to go (Figure 22). That’s not one of those plots that is supposed to go lower left to upper right.
“High debt levels, whether in the public or private sector, have historically placed a drag on growth and raised the risk of financial crises that spark deep economic recessions.”
~The McKinsey Institute

“For all intents and purposes, we are out of money now.”
~Leslie Geissler Munger, Chicago comptroller

The muni debt problem is a combination of demographics and over-promising. This analysis is short because I have laid out the risk before, and the ice has not yet audibly cracked under our feet. But it will.

State-run pension funds are more than $1 trillion in the hole during strong markets. This is old news, but lifeguards in Orange County are “retiring at age 51 with over a $100K pensions plus health-care benefits.” That pays for a lot of sunscreen, Dude. CalPERS says that the state pension funds are underfunded by $80 billion assuming 7.5% returns going forward. Good luck getting those returns. The problem is not CalPERS but rather the promises made by various unions and then expected to be handled by CalPERS.

Illinois has a $33 billion state budget and pension funds that are underfunded by almost $100 billion (Figure 23).
The Illinois Supreme Court ruled that scaling back government promises is unconstitutional. The protection was built into the state constitution. The problem is that there is no money. Put that in your constitution. I suspect, however, that the judge is not precluding a solution but rather telling them to pay up or go Chapter 9 bankruptcy. Seems logical to me. Judges elsewhere are starting to let pensions get pared back to ward off defaults. New Jersey, Pennsylvania, Illinois, and Arkansas have saved the least for the next rainy day. Chicago’s unfunded liabilities are 10 times its revenues. Thank God Rahm Emanuel is calling in favors from his friends to manage the money. States are turning to pension obligation bonds to cover pensions. That merely moves insolvency down the road. Kansas governor Sam Brownback proposes to withdraw pension contributions to an already-lagging state pension fund to pay for tax cuts. Tell us how that works out for ya. Illinois sent IOUs instead of checks to lottery winners. You didn’t think the odds of a payout could get even lower, did ya? In New Jersey, Camden is so broke and screwed up that its last supermarket closed. The USDA declared Camden a “food desert” (or can’t spell dessert). The city’s police force is being disbanded, which will solve that police brutality problem. There will necessarily be more Camdens in the country before this is resolved. The problem may not be “over” until the demographically overbearing baby boomers start dying off. Alas, that is the very last entry on the boomers’ bucket lists.

Bonds

“Bonds have never been more expensive in human history, and yet their supply has never been higher.”

~Tim Price, PFP Group

“If you have the option to hold [bonds] to maturity, your risks are bounded and very small.”

~Brad DeLong, economist at University of California, Berkeley, ignoring inflation risks

“Anyone that complains of a bubble in government bonds is someone that should probably be investigated and perhaps prosecuted.”

~One of Brad DeLong’s Ph.D. groupies

Liz Ann Sonders noted, “I’m amazed at how often I find investors who don’t really even understand the basics of how yields and prices move in the opposite direction.” It’s not that hard, is it?
As rates plumb 700-year lows (Figure 24), bond prices are soaring to 700-year highs. Is there a maxim about buying high and selling low? Didn’t think so. I don’t want to be around when that trend finally reverses. According to Bloomberg, “Bond prices are now so high that yields on more than $4 trillion of the developed world’s sovereign debt have turned negative.” As the price goes to infinity, the rate goes to zero, right? I don’t really know how negative rates are achieved on a pre-existing bond—you probably can’t get there from here (to quote the recently departed Yogi)—but we will talk about it in the ZIRP and NIRP section below. Welcome to Mount Stupid.

Figure 24. 700 years of interest rates.

“We have a bond market bubble and when that decides to work its way off we are in trouble.”

~Alan Greenspan, Chair of the STFU Committee

I previously called the bond market the “bond caldera”—a bubble so large that you can see it only from space (or from Greenspan’s front porch). I believe that someday, we will all be hosed when the liquidity leaves the system. This is not a unique view, but many bond speculators believe that (1) central banks would never let rates rise uncontrollably; (2) they are smart enough to get out first; and (3) their counterparties will actually pay them when the time comes.
Apparently, there’s a lot of omnipotence to spread around. Until the burst, I simply marvel at the metastability with awe.

Catastrophe bonds—securitized insurance products that pass the risk of catastrophic payouts onto unsuspecting suckers—will surely be deemed ironic before the Final Exit. This insight comes from former General David Petraeus in his new position as a bond expert at Kohlberg Kravis Roberts (KKR).\(^1\) (Bonds? I thought you said bombs!) Risk parity funds endorsed by Ray Dalio are premised on the idea that a 200–300% leveraged bond portfolio will bring the return and the risk of bonds to parity with equities.\(^1\) Be careful what you wish for, Ray. You may find that risk you are looking for and then some. Unwinding risk parity funds will add some serious fuel to the inferno. Bridgewater Associates will probably apply for bank status late some Sunday night. Bond Kings Bill Gross and Jeff Gundlach called the top of the German bond bund market (Figure 25).\(^1\) Gross called them “the short of a lifetime.” Actually, they probably didn’t call the top but rather caused it. Epilogue: the German bunds are rallying back already. Human folly knows no bounds.

![Figure 25. German bund prices 11/14–5/15](image)

“The risk is there could be a run on the bond funds, causing further downward price movement. . . . They’ve been searching for yield and throwing caution to the wind.”

~Jeff Gundlach, Doubleline Capital

Bond market liquidity is a topic of considerable concern of late. You would be forgiven (by me, at least) if you found this confusing. Contextually, liquidity can refer to the ability to exit an asset without seriously altering the price. In the bond market, it seems to refer to an availability of legally mandated collateral for the money markets. From the horses’ mouths, Andy Huszar and Deron Green, had trouble buying $5–9 billion of qualifying bonds per day while running QE I (first quantitative easing). Fortunately, the Fed cared little about the quality; only quantity mattered. The Bank of Japan is said by an IMF paper to “need to reduce the pace of its bond purchases in a few years due to a shortage of sellers.”\(^1\) Ewald Nowotny of the European Central Bank Governing Council noted that “there are simply too few of these structured products out there.”\(^1\) According to Jim Reid of Deutsche Bank, “the combination of high money liquidity (ZIRP and QE) and low trading liquidity (regulation and bank capital constraints) creates air pockets.” He went on to say, “I can’t help thinking that
when the next downturn hits, the lack of liquidity in various markets is going to be chaotic. These increasingly regular liquidity issues we’re seeing might be a mild dress rehearsal.” I’m not sure which liquidity Jim is referring to in that statement. FINRA is worried about the liquidity of high-yield (junk) bond funds: “Investors might get locked out again.” This concern is certainly in reference to a buyer’s strike. FINRA also worries about “bond investors losing money when interest rates rise.” Yield reachers will also lose their shirts. Remember: rates up/prices down.

I think we’ve got big problems with sovereign debts reaching unsustainable levels. Debtors will default and creditors will get hosed. Central banks are struggling to guide this system back to safety like a shot-up World War II bomber. World debt is 40% higher than it was at its peak before The Crisis. Central banks are buying up (monetizing) 100% of newly issued debt in an effort to—how do they say it?—trigger inflation. It’s probably not going to play out fast (although it could). Collapsing energy prices are putting huge pressures on emerging markets relying on cash flows (petrodollars) to pay off dollar-denominated debt. Rumor has it that 2017 is the big year for emerging market debt rollovers. Put that on your calendars—your 2016 calendars. Noah built the ark before the rains.

Inflation versus Deflation

“For the people who say there will be inflation, yes, when, please? Tell me: within what?”
~Mario Draghi, president of the European Central Bank

“We may be headed into a world where capital is abundant and deflationary pressures are substantial. Demand could be in short supply for some time.”
~Larry Summers on the Great Stagnation

“The next shoe to drop will be the realization that the U.S. recovery is stalling and outright deflation . . . is every bit as immediate as that in the Eurozone.”
~Albert Edwards, Socite Generale

“There’s a lack of faith in monetary policy—you’ve thrown the kitchen sink at it, you’ve cut rates to zero, you’re printing money—and still inflation is lower.”
~Lee Ferridge, State Street
“Believe me, our misery will increase. The scoundrel will get by. But the decent, solid businessman who doesn’t speculate will be utterly crushed; first the little fellow on the bottom, but in the end the big fellow on top too. But the scoundrel and the swindler will remain, top and bottom. The reason: because the state itself has become the biggest swindler and crook. A robbers’ state!”

~Adolf Hitler, cornerstone of Godwin’s Law

“Our kids can’t readily provide all goods and services; we outnumber them. I believe that unfunded liabilities, promises made that were not cashed in at the time, represent latent inflation pressures. The cashing in of these IOUs—large numbers of chits chasing limited goods and services—could trigger a virulent inflation. In this paygo system, we flourished while the boomers produced and were compensated with promises. Now we are about to hit the downslope.”

~Collum, 2013 “Year in Review”

I am a reformed inflationist. I had faith in the omnipotence of central bankers, and they seemed determined to destroy the currencies of the world while hoping We the People didn’t notice. Their omnipotence is in doubt, and their impotence is showing. First, let’s be clear that describing something so complex as the collective price levels of bazillions of commodities, healthcare, tuition, stocks, bonds, and labor in a binary language—inflation or deflation—is an absurdity of a higher order. It’s not that I think generalized price levels will drop—I don’t—but rather that we could face a deflationary liquidation of assets and debt (negative inflation to the euphemists.) That maximum-pain, Black Swan moment is gonna smart.

You can find evidence of both inflation and deflation depending on where you look. Both Europe and Japan reportedly slipped into deflation in October. There is an ongoing deflationary commodity rout. David Stockman notes that “iron ore is . . . the real measure of the violence of global deflation that is currently underway,” yet beef and veal are up 30% in two years. Rents have been soaring in the U.S. and are so high that in San Francisco, converted shipping containers are being leased for $1,000/month.

I was asked recently about why I hold gold while facing deflationary risk. That’s easy: people of prominence and authority are still saying incredibly stupid things and making asinine decisions. Let’s look at a few:

“I do not hesitate to say that although the prices of many products of the farm have gone up . . . I am not satisfied. It is definitely a part of our policy to increase the rise and to extend it to those products that have as yet felt no benefit. If we cannot do this one way, we will do it another. But do it we will.”

~Mario Draghi, European Minister of Inflation and Debasement
“Inflation is hopefully giving little signs of moving up in the right direction.”

~Christine Lagarde, director, IMF

“When older cohorts have more influence on the redistributive policy, the economy has a relatively low steady-state level of capital and a relatively low steady-state rate of inflation.”

~James Bullard, president of the St. Louis Fed

“Even if we had some kind of shock that sent prices up for some reason, the Fed has the tools to stop inflation. That’s not very hard. . . . There is a whole generation of people who don’t remember inflation. They don’t know what it is, and so I think inflation is a non-existent threat.”

~Alice Rivlin, former Fed governor, making my brain hurt

The award for the most moronic statement goes to . . . envelope please . . . Alice Rivlin! If we don’t know what inflation is, it can’t hurt us. Fabulous! As far back as the Neolithic era when division of labor first appeared, increased efficiency and productivity resulted in deflation naturally: goods improved and prices dropped as production methods evolved. In a highly inflationary world of fiat currency and central banking, however, you only get deflation when central bankers completely screw the pooch. They think central planning precludes deflation when it is the failures of central planning that cause a post-inflation, chaotic deflation. Every bust is preceded by excessive credit.

The authorities—the sharpest bulbs in the deck—fear deflation but are remarkably sanguine about inflation. Why? In the Fed’s version of Field of Dreams, voices say “print and it will come,” but got a big goose egg. Although housewives are hurting from rising prices, economists see a falling money velocity, and fret over assets that have been pumped and are now poised to dump.

“Deflation is clearly the boogeyman . . . and the only thing that will save the middle class.”

~Rick Santelli, CNBC

Let’s take a closer look at the dollar-centric money velocity (Figure 26). Isn’t it a truism that if you jam more money into a system than it can absorb, the velocity will plummet? Back in 2010 I called this a “monetary capacitor” waiting to discharge. Even Greenspan frets that the unseemly globs of money on the bank balance sheets are a latent inflation waiting to release (and he has n-th stage something.)43 But so far the Fed’s efforts to inflict inflationary carnage—debase
your currency and your savings—have yet to work their magic: their grand monetary stimulation has been flaccid.

![Money (dollar) velocity versus money stock, 1985–2015.](image)

**Figure 26.** Money (dollar) velocity versus money stock, 1985–2015.

Where have we seen this precipitous drop in money velocity before? Oh. Right. Weimar Germany in the 1920s (Figure 27). In fact, the velocity plummeted twice before the infamous German hyperinflation kicked into gear, eventually hurtling the world into a second world war. If that happens again, we are gonna see some high-frequency quantitative tightening.

![Weimar money velocity.](image)

**Figure 27.** Weimar money velocity.

The authorities couldn’t give a hoot about Consumer Price Index inflation: they hide it. (I dealt with MIT’s Billion Prices Project last year, it has flaws with statistical weighting and transparency in my opinion.) The authorities also love asset inflation: they promote it. What they care about deeply is preventing asset deflation. There are, nonetheless, some big-brained guys worrying about inflation and its consequences:
“Asset inflation is roaring, but it is sectoral and skewed. Consumer inflation is understated, and thus growth is overstated. Employment data are misleading. This combination of factors means that ordinary citizens are not doing well, but the owners of high-end everything are doing just fine, with few concerns for the middle-class people who know things are not ‘all right,’ but cannot put their finger on why.”

~Paul Singer, Elliott Management Corporation

“The idea that when people see prices falling they will stop buying those cheaper goods or cheaper food does not make much sense. And aiming for 2 percent inflation every year means that after a decade prices are more than 25 percent higher, and the price level doubles every generation. That is not price stability, yet they call it price stability. I just do not understand central banks wanting a little inflation.”

~Paul Volcker, former Fed chairman

“In spite of all the paper issues, commercial activity grew more and more spasmodic. Enterprise was chilled and business became more and more stagnant.”

~Andrew Dickson White on the French inflation

“Thus the menace of inflationism . . . is not merely a product of the war, of which peace begins the cure. It is a continuing phenomenon of which the end is not yet in sight.”

~John Maynard Keynes

**ZIRP and NIRP**

“If rates go negative, the U.S. Treasury Department’s Bureau of Engraving and Printing will likely be called upon to print a lot more currency as individuals and small businesses substitute cash for at least some of their bank balances.”


“We are now in the terminal stages of QE, during which the practical limitations of this fatuous and discredited policy are being revealed.”

~Tim Price, PFP Group
“It goes without saying that deeply negative interest rates would be accompanied by a massively expanded QE4 in the US. The last seven years of exploding central bank balance sheets will seem like Bundesbank monetary austerity compared to what is to come.”

~Albert Edwards on a bull session with Bob Janjuah

“When zero interest rates don’t do the trick, we begin to imagine that maybe negative interest rates and penalties on saving might coerce people to spend now. Look around the world, and that same basic policy set is the hallmark of economic failure on every continent.”

~John Hussman, founder and head of Hussman Funds

As the world struggles back from the 2008–09 crisis, the central banks remain at DEFCON 1. Maybe they are lying—the world is not recovering. Maybe they are pusillanimous. Central bankers suffer Hayek’s Fatal Conceit, deluding themselves into believing they are more qualified than the market to set the price of capital—to set interest rates. I find it a breathtaking conceit. We often hear about what rates are telling us about the economy when in fact sovereign bonds reflect the central bankers perception of the economy . . . well, actually, their perception of what is good for the economy . . . or maybe the banking system . . . whatever. Supply and demand meet at price. What’s true for widgets is true for capital. Central bankers have decided they don’t like current prices, the price discovery mechanism, or even free markets. The result is the proliferation of zero interest rate policy (ZIRP) and, most amazing, negative interest rate policy (NIRP). Why zero? It’s a policy . . . try to keep up.

“I am pretty horrified by the global quantitative floodgates that have been opened since the 2008 Great Recession. Once an emergency measure of dubious effect, it is now a never-ending stream of confetti money being thrown around the world to inflate asset prices. QE has now become the policy variable of first resort. Personally I think this will all end very badly.”

~Albert Edwards

Given that yields correlate inversely with price (although my math breaks down with negative rates), this is the largest bond bubble in history, which necessarily makes it the biggest bubble of any kind in history. As the highly flawed theory goes, zero rates can become insufficient such that they must lay siege on savers with NIRP. Just to be clear, in the World According to NIRP, borrowers are paid to borrow and creditors pay to lend. Hmmm . . . must be a theoretical construct, n’est pas? Not exactly.
“Ideas that would have been considered crazy just a decade ago are now seen as much more likely.”

~Mike Bird, Business Insider

Switzerland became the first 10-year bond to go negative; Switzerland profits from borrowing money (Figure 28). Sources close to the SNB suggest “a rate of minus 1.5 percent is being considered.” Sweden’s Riksbank started its monetary bestiality, keeping its repo rate at minus 25 basis points and announcing that more bond purchases would be in order if the markets didn’t kowtow to the desire for inflation. Who doesn’t crave a good dose of inflation? Then the German five-year note went negative. Thirty percent of European sovereign debt is now trading at negative interest rates—2 trillion Euros (Figure 29). Seventy percent of all German bonds and 50% of French bonds are returning wealth-consuming negative rates. The Great Danes similarly have jumped the negative interest rate shark. Even the Spaniards pay to loan money to their insolvent state. It eventually leaked into the corporate sector with Nestlé enjoying the right to be paid 50 basis points to borrow money.

“There is an inherent risk of future losses if we buy at negative yields.”

~Ewald Nowotny, European Central Bank Governing Council

“\text{It is easy to neuter cash taken out of the bank as a way to defeat negative interest rates simply by removing the guarantee that the Bank of Japan will take that cash back at face value.}”

~Miles Kimball, economist at the University of Michigan

Figure 28. Swiss yield curve.
Operational equivalents of negative yields can be inflicted on retail banking clients through fees that exceed interest rates. The Australians are pondering a tax on savings. The incentives are often oddly perverse. While some are charging fees, others are shunning large deposits. Deutsche Bank no longer wants checking accounts; in the QE world, deposits are no longer the foundation of its capital.

“I'm quite happy to pay a trusted creditor (a.k.a. the government) a moderate fee in the form of a negative interest rate for storing part of my wealth.”

~Morgan Stanley analyst on negative rates

So what’s the problem? Some enthusiasts think that when money is cheap, sovereigns should borrow their collective asses off. Worked well for home buyers in 2000–09. Others have noted that positive yields are available by shorting the debt. Very weird. Central banks obsess over expectations, and we are told the deflation mindset is deadly, but the evidence is unconvincing to me.

In the best-case scenario, the whole debt superstructure remains intact and bondholders make nothing on their investments. How will those endowments, defined-benefit pension plans, and 401Ks perform when 40% of their 60-40 portfolios return negative squat? Ya can’t even make it up on volume with risk-parity bond funds because they are all risk, no return. The consequences of this nonsense are legion. The pros will call it a “yield chaser’s market” and assure us they are the smart guys. The 7–8% projected returns required to achieve projected demographic needs don’t look too probable. The more likely scenario, however, is that bond prices and bond portfolios will tank. Unlike the 2008–09
crisis in which bonds cushioned the fall for equities, bonds and equities will drop in concert. Yield-starved investors in the developed world tried to escape NIRP and ZIRP with yield-chasing in emerging markets. That market is collapsing as I type. It could really get out of control.

The War on Cash

“Cash is not a very convenient store of value.”

~Janet Yellen

“The benefits of cash are significant—but they need not be offered for free.”

~Financial Times

How Orwellian. With all this talk of ZIRP and NIRP, it is patently obvious that the return of zero percent on cash in your mattress exceeds the return on money in the bank in a NIRP world. Don’t go hollowing out your Sealy just yet, however. The War on Cash is already circumnavigating the globe and could get fugly.

The initial skirmishes are predictably authoritative jawboning. Folks of wealth and power have been preaching the evils of cash for some time. Willem Buiter penned a screed wailing on the limitations of cash (and the dastardly consequences of gold). He thinks taxing cash is no worse than inflation. Yes, Willem, and your point is what? Buiter, by the way, began spewing these ideas as early as 2009. Charles Goodhart, formerly hailing from the Bank of England, proposes abolishing high-denomination currency, which exists “to finance drug deals.” Maybe he’s Charlie McGruff the Crime Dog, but he tips his hand by noting that cash also makes it hard for bankers to “drive interest rates a little bit further down.” Harvard University economist Kenneth Rogoff wrote a paper favoring the exploration of “a more proactive strategy for phasing out the use of paper currency.” He too feigns crime-dog status but goes on to note that “central banks cannot cut interest rates nearly as much as they might like.” A German economist named Peter Bofinger claims that “coins and notes are in fact an anachronism.” The Financial Times, obviously doing a little whoring of its own, gives five specious arguments against cash, not the least telling of which is the suggestion that “the existence of cash—a bearer instrument with a zero interest rate—limits central banks’ ability to stimulate a depressed economy.” Andrew Haldane from the Bank of England notes that negative rates “encourage people to take their savings out of the bank and hoard them in cash. This could slow, rather than boost, the economy. It would be possible to get around the problem of hoarding by abolishing cash.”

It’s not just talk: cash is getting pushed to the margins. A number of sovereign states including Italy, Switzerland, Russia, Spain, Uruguay, Mexico, and France have legal caps on cash transactions. The U.S. requires cash withdrawals above $10,000 or serial withdrawals exceeding $10,000 in aggregate to be reported to authorities. Are you willing to risk asset seizure? Not me. I
accepted my loss of civil liberty and stopped withdrawing even 4-digit sums. Louisiana actually has a legal (albeit unconstitutional) restriction on cash transactions.\textsuperscript{156} Apparently, “all debts public and private” doesn’t really mean \textit{all} debts . . . only little ones . . . maybe no debts . . . and I’m not sure about the private part either.

> “Faced with seeing their money slowly confiscated, people are more likely to spend it on goods and services. When this change in behaviour takes place across the country, the economy gets a significant fillip.”

> ~Jim Leaviss, M&G Investments

JPM has been the most aggressive to squash cash. It threatened to charge certain customers a “balance sheet utilization fee.”\textsuperscript{157} That’s short for ‘stealing your God damned money.’ JPM also banned paper currency or coins in safe deposit boxes unless they are collectibles.\textsuperscript{158} I suspect American gold eagles are \textit{not} deemed collectibles. And, by the way, how do they know what’s in your box? Lest we forget, the State of California did a massive smash-and-grab on safe deposit boxes\textsuperscript{159} until the courts finally stopped it. I trust JPM a lot less. At least one Swiss bank has banned cash withdrawals. The CEO of MasterCard talks his book by noting, “We generally believe cash has a tremendous cost to society.” Thank God using your MasterCard is free (head slap). A German MasterCard subsidiary has banned cash withdrawals using the card. Given that it could simply bust chops with huge withdrawal fees, one wonders what the angle is. It’s not like we needed another reason to hate credit card companies and their affiliated banks.

Denmark seems to be taking the plunge into a cashless society. The wealth will be held not by a bank but by the government. Phew! So once those crazy Danes go cashless, what is to protect them from a 1\% service fee? How about 4\%? Maybe that’s too hyperbolic, but I’ve noticed that ATM cash withdrawal fees have gone up massively at both ends of the transaction. With ATMs within a hundred yards of us at all times, you would think the market would drive the cost per withdrawal down, not up.

Let’s summarize restrictions on cash: We can’t hoard it, withdraw it in big chunks, withdraw it in little chunks except with huge fees, or spend it in significant quantities. Now let me be \textit{really} clear: Cash is a civil liberty that allows you to maintain arm’s reach from the strong arm of the government. I am willing to share it with the drug lords if need be. I also think those who wish to ban cash are, at best, clueless and misguided. Others are wretched people, fascists, quite possibly treasonous, and definitely worthy of a swift beating. If you douchebags in power force people to go to hard assets to avoid oppression, don’t be surprised if those hard assets include firearms. You are playing with fire.
“No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.”

~Section 10, U.S. Constitution

Banks and Bankers

“The money powers prey upon the nation in times of peace and conspire against it in times of adversity. It is more despotic than a monarchy, more insolent than autocracy, and more selfish than bureaucracy. It denounces as public enemies, all who question its methods or throw light upon its crimes. I have two great enemies, the Southern Army in front of me and the Bankers in the rear. Of the two, the one at my rear is my greatest foe. . . . I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my Country. Corporations have been enthroned, an era of corruption in high places will follow, and the money power of the Country will endeavor to prolong its reign by working upon the prejudices of the People, until the wealth is aggregated in a few hands, and the Republic is destroyed.”

~Abraham Lincoln

We have come down from the trees but are not out of the woods yet. The six biggest banks are ginormous—50% larger than they were at the previous high at the start of the crisis—but the sector was relatively quiet this year. Hundreds of billions in fines have been levied by various governmental Rainbow Coalitions. As statutes of limitations began to run out, Eric Holder and authorities declared there would be no prosecutions of individuals responsible for the crisis. For those wishing to probe the origins of Holder’s Catch-and-Release Program (CARP), read the Holder memo from years earlier in which tough talk is interwoven with a guide for how corporations can shake the hook if caught. This ain’t exactly CSI Wall Street.

Rumors that the Justice Department intends to rip up a non-prosecution agreement and go after Barclays, JPM, Citigroup, the Royal Bank of Scotland, and UBS sound hollow when it’s said the Federales are “mindful that too harsh a penalty could imperil banks that are at the heart of the global economy.” Am I the only one who would still like to see some systemically important bankers hanged on prime-time television? Blogger Michael Krieger suggests they will swing like Billie Holiday’s “strange fruit,” but Michael is an optimist. Curiously, while Jon Corzine considers setting up a hedge fund for the hopelessly gullible, he remains at risk for prosecution. By contrast, Jamie Dimon joined the billionaire club owing to his stellar stint as CEO of JPM,

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producing zero capital gain and 1.7% dividend/year over the last 15 years. Well done, Billy Ray.

There are rumblings under the surface at Deutsche Bank, and it is likely we are not yet getting the full story. It’s hard to imagine a $2.5 billion pocket-change settlement would bring it to crisis mode.  

Bank officials admitted soon afterward that they omitted a few niggling details. The two top dogs got fired. One could imagine a host of problems emanating from the commodity collapse. I suspect the Greek crisis has been about a Deutsche Bank bailout. Even the dot-gov websites are citing “Deutsche Bank’s illegal conduct,” which “involved nearly a decade of lying, cheating, and stealing . . . a brazen scheme to defraud Deutsche Bank’s counterparties and the worldwide financial marketplace by secretly manipulating LIBOR.” Way to sugarcoat it. Don’t be surprised if the Europeans end up bailing it out more explicitly.

HSBC is a reconstituted BCCI and has been on a global crime wave. Leaks via one grumpy tech guy in 2008 showed that HSBC’s clients are crooks and scoundrels. Apparently, the bank was aiding and abetting tax evasion (although I didn’t know drug lords paid taxes). It tried to squelch the story by controlling the media and vetting unfriendly stories (about narco terrorism, for example), but this is the digital age. E-permanence is a bitch, ain’t it?

Bank of America is rumored to be rehypothecating funds to speculate in complex trades, although I suspect it is technically not rehypothecation but rather legal seams to be exploited. Wells Fargo got caught in a fee scandal and customer reaming. I wonder what the Orifice of Omaha knew and when. And in shocking news, Santander, the bank into which the system dumped buttloads of detritus during the crisis, is in trouble. Citi solved its problems (or so it thinks) by quietly shoving over $70 trillion in derivatives under the protective apron of the taxpayer while nobody was looking. The bad bank that was created in the aftermath of the Hypo collapse is about to be unwound. Seems being a “bad bank” is not a viable business model.

“The Export-Import (Ex-Im) Bank is nothing more than a “vast, well-funded network of consultants, lobbyists and big-government interest groups” to quote Heritage Action CEO Michael Needham. It provides funding to sovereigns who can’t get loans to buy goods. Right. Credit is so tight. GE is a big benefactor, rumored to have scooped up over 64% of this largess. The Ex-Im Bank moves the credit system away from the free market and into the jurisdiction of government. Freedom of Information Act requests largely fail owing to e-mail malfunctions. Boeing turned to blackmail by threatening to move jobs abroad if Ex-Im Bank renewal is voted down. Well-placed campaign donations will solve this problem.
“But when governments decide who wins and loses, success increasingly depends less on how hard you work and more on who you know in Washington.”

~Jeb Hensarling in an open letter on the Ex-Im Bank renewal

GE, which is technically not a bank, is dumping GE Capital, which operationally is a bank. Does it see something in the consumer credit market to cause an exit, stage left? It may have just rung the Sam Zell bell. A week after announcing the sale, GE reported a first-quarter loss of $13.6 billion, hastening to add that if you exclude the bad shit—tens of billions of dollars of bad shit—it made money. Einhorn noted that a $16 billion after-tax charge “would drain 5 percent to 7 percent from S&P 500 quarterly earnings.” He also noted that by exiting GE Capital, GE will “own up to its cumulative chicanery rather than face its first Fed-supervised stress test” and that this may be “one of the first real successes of Dodd-Frank.” One could be forgiven for a muted response to this optimistic note.

“This criminal behavior went on for years, unchecked and undeterred.”

~Kara Stein, SEC Commissioner on prosecution waivers

The Fed

“It’s self-defeating to use the wrong monetary policy.”

~Ben Bernanke, former FOMC chairman


~Bill Gross, Janus Funds

“The Fed is screwed.”

~Peter Boockvar, chief market analyst of the Lindsey Group

We spent the year waiting for the Fed to raise the Fed funds rate—the so-called “liftoff”—to an exorbitant 25 basis points (0.25%). Deutsche Bank called this a “controlled demolition” of the market. Really? Seems much ado about nothing except the markets are leveraged up the kazoo, the dollar is soaring and putting huge stress on emerging market debt denominated in dollars, and the average leveraged speculator on Wall Street hadn’t made it to first base when the Fed last raised rates 11 years ago. One estimate puts the added global debt service at $500 billion for each 25 basis points. Zerohedge notes that it will cause an instantaneous unwinding of one QE unit ($800 billion). The Fed thinks,
however, that if it pulls trigger really, really slowly, it won’t blow the head off the global economy, but that is not how triggers work.

“The Federal Reserve signaled it would keep short-term interest rates near zero at least until midyear, while also setting the stage for tough decisions in the coming weeks about whether it should wait even longer.”

~Jon Hilsenrath, Fed mouthpiece and apologist from the Wall Street Journal

Tough decisions about waiting longer? Every time somebody passed wind the Fed used it as an excuse not to raise rates. Some metric of economic activity went south, it waited. Domestic markets began to correct, it waited. Foreign markets began to correct, it waited. Inflation stayed below the arbitrarily and ludicrous 2% benchmark, it waited. Tom Brady deflated his balls, it waited. A Bloomberg headline noted, “Traders are betting that policy makers won’t be able to raise rates this year without disrupting stocks and bonds.” I don’t remember Volcker worrying about disrupting stocks and bonds. The current Fed is worried about all asset classes in all countries. Its concern about everything is some serious self-imposed mission creep. Meanwhile, it’s pushing bankruptcies and recuperative liquidations into the future, hoping the spiking PSA levels and bloody stools will go away.

All stupidity aside, the Fed claims to be data driven, but its monetary policies are really opinion-driven—making shit up in real time. Official numbers were cited as evidence of recovery—referred to as a fragile recovery to justify inaction. The recovery does seem both weak and fake (see The Economy and the Next Recession). I hasten to add, however, that I also believe that the poor recovery is the Fed’s fault, and that the Fed has no real (constructive) control over the economy whatsoever. But don’t listen to me; let’s hear from some Fed detractors with gravitas:

“The Fed’s unconventional monetary policies have also created dangerous risks to the financial sector and the economy as a whole.”

~Martin Feldstein, Harvard University

“The cost I was worried about was the longer-term cost of unraveling all of this.”

~Charles Plosser, former president of the Philadelphia Fed

“You have to be extremely concerned with what’s going on. . . . There is no question that the Fed did hold it up there, but I think now the time has come to stop the medicine, and I think it will happen. It will stop.”

~Carl Icahn, head of Icahn Enterprises
“In the past seven years central banks have conjured more than $10 trillion of digital wampum. Still, prosperity eludes them.”

~James Grant, founder of *Grant’s Interest Rate Observer*

“I believe if monetary policy is too accommodating for a very long period of time it can be destabilizing . . . I fear we’re seeing that again. . . The time has come. I hope it’s not too late. It needs to be done very slowly, very gradually, but yes they need to do it.”

~Sheila Bair, former head of the FDIC

“They don’t understand the treacherous path they are going down . . . Those guys who run these companies are borrowing money very cheaply . . . they are buying back stock or even worse, making stupid takeovers.”

~Carl Icahn on the Fed

“Federal Reserve [actions] will have disastrous long-term consequences . . . In an era of peak debt, the only thing zero interest rates achieve is create an enormous incentive for Wall Street to gamble more and more recklessly.”

~David Stockman, director of management and budget under Reagan

“The market is going to say ‘oh my god, we’re so far behind the curve’ and force an adjustment that is going to be wrenching . . . [the Fed] has almost no credibility . . . the market is going to take the Fed and the Treasury curve to task in a very painful way.”

~Lawrence Lindsey, former Fed governor

“I am looking at a bubble that is almost sure to pop at some time, and I don’t know when it’s going to happen, but I know it’s going to happen . . . I don’t think it’s at all ridiculous to think of a selloff like we saw in 2008.”

~Julian Robertson, former head of Tiger Management Corporation

“Our monetary policy is so much more reckless and so much more aggressively pushing the people in this room and everybody else out the risk curve that we’re doubling down on the same policy that really put us there.”

~Stanley Druckenmiller, former head of Duquesne Capital
“The Fed’s quantitative easing lowering the real rate of interest has been responsible for the rise in P/E multiples . . . and when rates normalize, that will reverse . . . we can’t argue that we are extremely overvalued in the marketplace.”

~Alan Greenspan, some guy on CNBC

“The Fed is a monument to the corporate state. Contrary to basic American values of freedom and democracy.”

~Chris Whalen, former editor of The Institutional Risk Analysis

“If you reduce the cost of capital you increase your use of fixed assets and you take out jobs . . . So one of the very sad negative characteristics of the Fed’s policies is it’s leading to job destruction.”

~Ken Griffin, CEO of Citadel in 2013 . . . and then he hired Bernanke

“The persistence of extraordinary policy accommodation in a financial system flooded with liquidity poses a great danger.”

~Stephen Roach, Yale and former director of Morgan Stanley

“Fed chatter is akin to reading the lyrics of a James Brown song—don’t make no sense.”

~Grant Williams, RealVisionTV.com and Vulpes Investment Management

The Fed spoke with a single unintelligible voice under Alan Greenspan. It now resorts to a Chorus of Garble. The Fed will say the darnedest things. It makes you wonder why Krugman isn’t a Fed governor:

“We are going to be changing monetary policy from the most extremely expansionary we’ve been able to do in all of history to an extremely expansionary monetary policy.”

~Stanley Fisher, Fed vice chairman

“We’ll be able to make a move, but we don’t have to make a move.”

~James Bullard, president of the St Louis Fed

“What worries me is how totally lazy investors have gotten, totally dependent on the Federal Reserve, and I find this to be a precarious situation.”
~ Richard Fisher, Fed governor

“The decrease in labor force participation among prime-age individuals has been driven mostly by the share who say they currently don’t want a job.”

~Atlanta Fed

“The economy has improved considerably; that’s why we need to continue the extraordinary measures we’ve been implementing.”

~Janet Yellen, chair of the FOMC

“How much has Twitter contributed to productivity? Seems like it does.”

~James Bullard, ignoring Collum’s Law

Monetary policy marches forward based on what seem to be some pretty silly constructs. The 2% inflation target is an arbitrary number that some feel is more than 2% too high. The notion that 12 bureaucrats should be setting the price of the most important commodity of all—the price of capital—seems utterly absurd. Those who say the Fed doesn’t set rates should explain to me what the Fed is doing. The artificially suppressed rates are marketed as a great opportunity for everybody to borrow money and build stuff (government included), but it begs a basic question: which poor slobs are failing to collect a decent return on their capital to pay for this largesse? OK. That was a rhetorical question. The Fed governors deny that the loose monetary policy is the source of wealth inequality; they are either clueless or liars. The Fed’s world view ignores the consequences of the financialization of an economy—turning the primary function of an economy into simply moving money.

“A similarly confused criticism often heard is that the Fed is somehow distorting financial markets.”

~Ben Bernanke, former head of the Las Vegas Fed

I should subtitle the following rant, “The Fed Buys the Farm.” The Fed seems to have this notion that if it drives up asset prices, it will also drive up asset values and make us all (or at least somebody) wealthier. Imagine the economy is like a farm. This particular farm not only raises livestock and grows produce but also makes things and provides services. It is still basically a farm. The Fed’s model seems to be that if you increase the assessed value of the farm through inflation, you will be wealthier. Call me silly, but I doubt the price tag on the farm influences its output, although it will crank up the taxes. Of course, the farmer could sell the farm to some nouveau farmer wannabe for a tidy
appreciation, but now the newbie just got a lousy deal. It’s a zero-sum game. One bad season—maybe a drought if the farm is in California—and that over-leveraged rookie sod-buster is wiped out. Are we really wealthier based on a higher assessed value of our farm? Are we really wealthier when the prices of equities, real estate, and bonds are driven higher? What farmers know and city slickers don’t is that if you don’t make it, mine it, grow it, or service it, you ain’t creatin’ wealth, son.

“The rules when I was there were you don’t talk to anybody about anything that could be used for commercial purposes.”

~Ben Bernanke on Fed leaks

The Fed got itself in a little bit of hot water when it leaked inside information to money managers. The Fed has a history of leaks. Ahead of an FOMC meeting in 1996, a Reuters reporter quoted an unnamed senior Fed official in a story that identified how many of the regional Fed presidents wanted to raise a key interest rate. In 2010, ex-Fed governor Larry Meyers provided Fed minutes to his clients two weeks before they were supposed to be released. This year the Fed released minutes in June by mistake, five years ahead of their projected publication. The big one, however, was when Janet Yellen met in 2011 and 2012 with a representative of Medley Global Advisors. Soon thereafter, Medley projected Fed actions to its clients 24 hours in advance of the press release.

“The Fed needs to be audited to see if its ruling body has broken the law by manipulating financial markets that are outside its jurisdiction. A thorough investigation of the Fed will show once and for all if its former chief Ben Bernanke and current chairwoman Yellen should go to jail.”

~John Crudele, New York Post

A shitstorm commenced. U.S. prosecutors launched an insider trading investigation into the leak. Soon Congress was involved, with Jeb Hensarling leading the charge. Hensarling subpoenaed information, the Fed said, “no way,” and Hensarling said, “yes way.” It got interesting, however, when Pedro da Costa, a determined reporter from the Wall Street Journal, got into it. Pedro had already hammered Bill Dudley for providing an interview to people behind an expensive paywall. He had given Janet Yellen some lip at a December 2014 press conference about “Segarra tapes, the Beim report, and most recently the revelation that a former New York Fed official was exchanging information with someone at Goldman Sachs who also had New York Fed connections.” Pedro even asked, “Do you see the New York Fed as a black mark on the Fed system because of these recurring scandals?” Boom! But it got real at a post-FOMC meeting press conference with this testy little exchange:
da Costa: I want to know if you could tell us who are these members of the FOMC who struck down this investigation? And doesn’t not revealing these facts kind of go directly against the sort of transparency and accountability that you’re trying to bring to the central bank.

Yellen: That is an allegation that I don’t believe has any basis in fact. I’m not going to go into the details, but I don’t know where that piece of information could possibly have come from.

da Costa: Is there a sense in the regulatory community that financial crimes need to be punished sort of more forcefully in order for them to be—for there to be an actual deterrent against unethical behavior?

Yellen: Only the Justice Department can bring criminal action, and they have taken up cases where they think that that’s appropriate. In some situations, when we are able to identify individuals who were responsible for misdeeds, we can put in place prohibitions that bar them from participating in banking, and we have done so and will continue to do so.

It was Zerohedge who noticed that Pedro was absent at the next press conference, seemingly replaced by Fed pawn Jon Hilsenrath. The Free Pedro campaign commenced on Twitter. (I can’t recall whether I started it, but I certainly led some charges.) When I asked Pedro if the Fed had in fact banned him from the Yellen press conference, he said it was actually his editor’s decision to take him out, even though he had attended every presser since they were launched during Bernanke’s tenure. No reason was given. A few months later, Pedro had left The Wall Street Journal to work at a Washington think tank. That, folks, is called access journalism. If you press the Fed, you won’t be invited back. The Wall Street Journal was offered an opportunity to define itself—to show its stuff—and indeed it did. Pedro threw some aggressive Tweets about the Fed’s “potentially criminal leak,” including calling on his peers to ask the tough questions in his absence. They went silent. Apparently his peers liked their seats at the press conference more than their right to defend the First Amendment. A few weeks later at the Humphrey-Hawkins speech, Yellen got just a little more guff before the trail went cold:

“You did nothing. You’re so concerned about bringing the leaker to the forefront that what will you do? Nothing! . . . if anyone is trying to sweep this under the rug, it’s the Fed.”

~Representative Sean Duffy to Janet Yellen

We’ll wrap my annual Fed bash with a little housekeeping. The big news is that Bernanke got a real job. He actually got two jobs: one at Pimco and the other at Citadel. As the world’s most gigantic bond trading firm, Pimco makes sense in the world of revolving doors and paybacks. That’s just a big sloppy kiss.
The job at Citadel—a firm known for high-frequency trading and being the receiver of wrath from detractors like Eric Hunsader—is less obvious. Eric’s theory is that Bernanke might prove useful if Citadel finds itself in court. Ben also penned a book that may paradoxically be profitable, ill-advised, and, I’m told, poorly written. It starts out with a bang in the title: *Courage to Act*. A bit narcissistic, don’t ya think? Then he manages to bring into the harsh light of day details about his role leading up to and during the financial crisis, which had remained in the shadows—even Sorkin couldn’t get squat out of him in *Too Big to Fail*. I probably will read it, but I do not have the stamina yet.

“Panic is what created the crisis.”

~Ben Bernanke

Schiff: Look, I gotta let you know—full disclosure—I’m probably your biggest critic.

Bernanke: Well, you got a lot of competition.

No, Ben. The Fed created the crisis with interest rates that were too low for too long. Everybody else on the planet knows this. The panic was a consequence of the crisis. But now it’s Janet’s turn to screw the pooch, and the early returns say she may do some real damage before returning to the Shire.

Baptists

In this section I present quotes from guys who I believe have some grasp of the world around them. Some are funny or at least pithy. Others carry wisdom. They are the antidotes to the bootleggers.

“Again, since I’m not an economist I really have no idea what the wrong solution is.”

~@RudyHavenstein

“Our industry is full of people who are famous for being right once in a row.”

~Howard Marks, founder of Oaktree Capital Management

“The long-term consequences of global QE are likely to permanently impair living standards for generations to come while creating a false illusion of reviving prosperity.”

~Scott Minerd, Guggenheim’s Global chief investment officer
“Whether it’s QE in the West or China’s recent regulatory intervention in the aftermath of the bursting of its equity bubble, market manipulation has become global in scope... The more we depend on markets, the less we trust them... what we really want are markets that operate only on our terms.”

~Stephen Roach, Yale University and former executive director of Morgan Stanley

“All global financials markets are a shell game right now... There is no doubt that the price of assets right now is a question mark... and ultimately when central banks stop manipulating markets where that price goes is up for grabs... and probably points down.”

~Bill Gross, Janus Funds and founder of PIMCO

“The world economy’s titanic problem: Coping with the next recession without policy lifeboats... In the absence of conventional policy ammunition, an addiction to QE could ultimately mean that the second great depression was only postponed, not avoided altogether.”

~Stephen King, chief economist at HSBC

“Capitalism has been propped up every time it’s about to go through one of the cyclical creative destruction phases... it’s the fault of the authorities for not letting cycles naturally evolve.”

~Jim Reid, managing director at Deutsche Bank

“History tells us we’re probably finished. The rest of the world is awakening to the fact that the United States is (1) strategically inept and (2) not the power it used to be. And that the trend is to increase that... Empires at the end concentrate on military force as the be all and end all of power... at the end they use more mercenary based forces than citizen-based forces... Empires at the end... go ethically and morally bankrupt... they end up with bankers and financiers running the empire. Sound familiar?”

~Colonel Lawrence Wilkerson, chief of staff for Colin Powell

“When you have zero money for so long, the marginal benefits you get through consumption greatly diminish, but there’s one thing that doesn’t diminish, which is unintended consequences.”

~Stanley Druckenmiller
<table>
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<tr>
<th>Quotation</th>
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<tr>
<td>“The global economy is rife with imbalances that cannot be fixed under the present international monetary (non)system.”</td>
<td>~William R. White, OECD</td>
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<td>“There’s a Ponzi scheme discovered on Wall Street every four days.”</td>
<td>~Larry Kotlikoff, economist at Boston College</td>
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<td>“We have zero growth, zero inflation, and zero hope . . . There is a reason why hope is at zero. The systemic failure of policymakers to understand and reverse the worst monetary experiment in history has created a situation where we need a deep crisis to shake off the mantle of this nothingness reality.”</td>
<td>~Steen Jacobsen, chief economist at Saxo Bank</td>
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<td>“The ‘risk’ case is only being made circumspectly by people who are being ridiculed as clueless Cassandras. . . . Our belief is that the global economy and financial system are in a kind of artificial stupor in which nobody (including ourselves) has a good picture of what the next environment will look like. The difference between ‘them’ and ‘us’ is that they mostly think that policymakers will muddle through, but we assume that a very surprising and scary environment lies in wait.”</td>
<td>~Paul Singer, Elliott Management Corporation</td>
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<td>Stealing the world can be fun</td>
<td>It doesn’t require a gun</td>
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<td>It doesn’t require a gun</td>
<td>Just hire some guy</td>
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<td>Just hire some guy</td>
<td>To print to the sky</td>
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<tr>
<td>To print to the sky</td>
<td>Then buy all the assets and run!</td>
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<td>“Central bankers do not understand that it was their tinkering, manipulation, bailouts, and false confidence that encouraged and enabled the insanity that led to the fragility and collapse.”</td>
<td>~Paul Singer, Elliott Management Corporation</td>
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<td>“The truly unique power of a central bank, after all, is the power to create money, and ultimately the power to create is the power to destroy.”</td>
<td>~Paul Volcker, former chair of the FOMC</td>
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“Equities would be the toughest to exit . . . it’s like a 5-lane highway going in and goat trail coming out . . . Brazil is great example.”

~Kyle Bass, president of Hayman Capital

“If command economies worked we would all be speaking Russian.”

~Kyle Bass

“What the world urgently needs is not any further incentive to take on debt, but a means of expunging some of its gross, existing burden of the stuff.”

~Sean Corrigan, former writer for The Daily Reckoning

“The only persons to be helped [by printing money] are the rich.”

~Du Pont de Nemours, 1790

“I think that another generation will look back and say ‘how could you have made that mistake all over again? How could you have failed to understand Hayek’s notion of the fatal conceit, that central planners can’t do better than the dispersed knowledge and signals of free market processes?’”

~Mark Spitznagel, author of *Dao of Capital* and founder of Universa Investments

“It’s not like we’re getting like Greece. We’re getting like Illinois!”

~Alan Greenspan on U.S. debt

“Isn’t it funny when you walk into a investment firm, and you see all of the financial advisors watching CNBC—that gives me the same feeling of confidence I would have if I walked into the Mayo Clinic or Sloan Kettering and all the medical doctors were watching *General Hospital.*”

~Senior portfolio manager, UBS

“I’m telling you this because I’ve made it a practice to share everything I know—leave pieces with different people—someone who is aware of a particular event. Just in case one day, I cross the wrong person.”

~Prominent market insider
“That just makes no fucking sense. This is bullshit.”
~Bill Nye, probably talking about Krugman

“In the good old days, children like you were left to perish on windswept crags.”
~Unknown Roman

There are moments when the authorities open their mouths and out comes some truly remarkable content. Some of these folks may prove to be correct, despite my doubts. I’m sure others are reasonable when they are sober. Although they appear to be afflicted with a variant of apraxia, there are those precious few who remind us that humans have a 30% genetic overlap with cabbage. Let us go to the cabbage patch and hear it in their own voices:

Hank Paulson: I was working on income inequality when I was at Goldman.

Robert Rubin: You were trying to make it wider.

“So hit me with a fine. We can afford it.”
~Jamie Dimon to Elizabeth Warren

“I’m a macro economist. Retirees? Sorry: I don’t care. I wanna get aggregate demand up.”
~Larry Meyer, former Fed governor
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<th>Quote</th>
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<td>“We just need to print money.”</td>
<td>Yutaka Harada, deputy director at the finance ministry’s Policy Research Institute</td>
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<td>“They want to be sure that their voices are being heard, and I want to commit to them that their voices are being heard.”</td>
<td>Janet Napolitano, president of the University of California, in a prepared statement</td>
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<td>“Let’s just break. Let’s go, let’s go. We don’t have to listen to this crap.”</td>
<td>Janet Napolitano on a hot mic</td>
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<td>“The crisis led to a sharp drop in incomes. It is up to us to push them up again.”</td>
<td>Mario Draghi, president of the European Central Bank</td>
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<td>“Yes. The Fed is feeding inequality, but it has to keep rates low for the good of the economy.”</td>
<td>Talking head on CNBC</td>
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<td>“One reason that risk premiums may be low is precisely because the environment is less risky . . . The Fed has long focused on ensuring that banks hold adequate capital and that they carefully monitor and manage risks. As a consequence, banks are well-positioned to weather the financial turmoil.”</td>
<td>Janet Yellen, July 2007</td>
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<td>“Most companies do better with less economic growth.”</td>
<td>Jim Cramer, CNBC</td>
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<td>“The problem today is not that central banks are being too activist but not activist enough.”</td>
<td>Larry Summers, former Secretary of the Treasury Harvard University</td>
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<td>“The Arab Spring is failing not for lack of bandwidth, but for lack of human understanding that can only be forged when someone is late for breakfast, and you say, ‘Thank you for being late.’”</td>
<td>Thomas Friedman at Davos making no sense</td>
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<td>Quote</td>
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<td>“I cannot imagine any condition which would cause a ship to founder. I cannot conceive of any vital disaster happening to this vessel. Modern shipbuilding has gone beyond that.”</td>
<td>Edward Smith, captain of the <em>RMS Titanic</em></td>
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<td>“Never being able to say that you were wrong is a serious character flaw.”</td>
<td>Paul Krugman, missing a chance at introspection</td>
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<td>“What ails the world right now is that governments aren’t deep enough in debt.”</td>
<td>Paul Krugman, CCNY (former Princeton) economist</td>
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<td>“Most customers already have an autonomous driver. It’s called a chauffeur.”</td>
<td>Rolls Royce spokesperson on self-driving cars</td>
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<td>“You might ask if 2% is the right target for inflation. We haven’t discussed that.”</td>
<td>Mario Draghi</td>
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<td><em>Keep Calm and Lever Up</em></td>
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<td>~Title of Citigroup’s 2015 <em>Outlook</em></td>
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<td>“The last six years have been a glorious time to be rich.”</td>
<td>Paul McCulley, former Pimco</td>
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<td>“There’s just some people [who] don’t fit well into a highly skilled market-based economy. They’re perfectly decent citizens. We’ll send them off to Afghanistan, but they are not going to command a big price.”</td>
<td>Warren Buffett</td>
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<td>“It’s All Noise, Don’t Worry.”</td>
<td>Laszlo Birinyi, predicting S&amp;P at 3,200 by 2017</td>
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Europe

“What you are seeing in Europe is a social catastrophe not seen since the 1920s and ‘30s.”

~George Friedman, founder of Stratfor

I have long-since forgotten what George was referring to, but I think he nailed it. On the 800th birthday of the Magna Carta in which King John laid the foundations for essential freedoms while guaranteeing no British monarch would ever be named John again, Europe began showing its age.

“Without further loans, Greece won’t make it, that’s the reality . . . you have just killed the Troika.”

~Jeroen Dijsselbloem, president of the Eurogroup

“Germany, unfortunately for a third time in 100 years, is attempting to destroy Europe.”

~Nikos Filis, parliamentary spokesman for Greece’s Syriza party

Greece started the year in ruins and ended it in total obscurity. Its debt market was collapsing by the end of 2014. The four largest banks needed a bailout in January. The debt-to-GDP ratio was 175% with a numerator-denominator double whammy (debt soaring, GDP collapsing). Unemployment was running at 25% (50% for youth). Professional women—doctors and lawyers—were turning pro (prostitution). The equity markets were tanking, eventually prompting authorities to shut them down. Not shockingly, when they reopened, they were getting clipped 25–30% per day (Figure 30). The country’s entire sovereign wealth was in ruins—quite literally. The ruins were all it had left.

Figure 30. Greek equities.
“This was nothing but a coup. In 1967 there were the tanks and in 2015 there were the banks. But the result is the same in the sense of having overthrown the government or having forced it to overthrow itself.”

~Yanis Varoufakis, former Greek minister of finance

When the radical Syriza party won the election, the Greek exit (Grexit) seemed to be a foregone conclusion. It was a Grexistential risk for Europe with Grexcrement hitting the fan, all Grexacerbated by the Germans, who kept a foot firmly on Greece’s throat. (OK. I’ll stop.) The threats, squeals, and bailouts continued all...year...long. The IMF loaned Greece money to pay back the IMF. Greece would miraculously “find” a couple hundred million Euros to make a payment. Greece tried to pry money out of Germany for belated—very belated—Nazi war reparations (and out of Italy for something Diocletian did to them). China thought of testing their bailout mechanisms in the new Asian Infrastructure Investment Bank (AIIB)—an Asian IMF clone—on Greece. The heart-throbbing Janis Varoufakis was secretly working on a break-the-glass Grexit strategy. There were rumors of Russian intervention and pre-payments for ports and pipelines. The whole thing looked like a smash-and-grab of what was left of Greek assets. After hours of studying the problem, the conclusion was subtle but inescapable: Greece has no money.

“The Grexit is so awful that someone must concede... someone, anyone, needs to concede.”

~Giles Wilkes, Financial Times

It all came to a grand finale in which a nationwide referendum appeared to be the Doomsday Machine. And then it happened: Greek citizens voted to put a bat to those Teutonic dogs—the Germaniacs—and it passed! It passed! Yeeewooow! And then—and then—absolutely nothing happened. We are talking total crickets. Greece went right off the world’s radar, and the world’s press moved on to more pressing issues such as the slaughter of Cecil the Lion and the heroism of Caitlyn Jenner.

“Never mind.”

~Emily Litella, Saturday Night Live

There are several potential subplots that may clarify this Quentin Tarantino movie. My suspicion is that the Germans prolonged the crisis so as to relentlessly justify bailing out the European banks that, unbelievably, had lent money to Greece. Of course, they got bailed out, so maybe they were not so stupid. It might have been more specifically a bailout of Deutsche Bank, which seems to be hitting the rocks hard (see Banks). A more provocative theory attributed to an always reliable source—Goldman Sachs—asserts that the Europeans used Greece to beat down the euro in the global Currency Race to Debase. Destroying the euro without resorting to explicit monetary policy (QE)
has its appeal. In the end, the Germans took what they could carry, the Greeks remain destitute, and Varoufakis resigned and headed off on the boat with Frodo. Meanwhile, I slide a little further down Mount Stupid.

“I say to all those who bet against Greece and against Europe: You lost and Greece won. You lost and Europe won.”

~Jean-Claude Juncker, president of the European Commission, May 2014

Just because Greece was relegated to footnote status (again) is not to say that all is peachy in the European theater. Youth unemployment in Italy is hanging around 50%. Catalonia voted for secession from Spain. George Friedman of Stratfor says massive European bond defaults are a given, although the timing is unknown. The Swedes seem to be choking on socialism, whereas the Riksbank expressed angst about Swedish consumer debt.

“As an expert in economics, I am useless in analyzing Europe.”

~Stephanie Pomboy, president of MacroMavens

Britain hit a few potholes. The London real estate bubble may be bursting. A British general expressed concern with Jeremy Corbyn being in charge of the country’s security: “The Army just wouldn’t stand for it and would use whatever means possible, fair or foul, to prevent that.” That’s a Magna Carta moment. Meanwhile, the Bank of England was secretly planning for a British exit (Brexit) from the European Union (although these guys secretly plan for any imaginable thing, so that is probably a non-event.)

Germany’s somewhat antiquated smokestack economy is believed by some to be unsustainable, which may explain the increasing German financial militancy in Europe. Meanwhile, investors continued charging into German equities while a sale of German 10-year debt failed to attract enough bids. Hello? Is anybody home? Heloooooo???

“IMF paints dim picture for Europe, suggests more money printing may be needed.”

~Reuters headline

The Swiss authorities, after relentlessly pinky swearing that they would peg the Swiss franc to the Euro in the face of a challenged export economy, removed the cap, which made the franc jump 30% in 13 minutes. That is some serious macrofreakonomics. Macro hedge fund fatalities looked like somebody opened the Lost Ark. Forex traders, known for using a bit of leverage, were carried out on their shields. The largest retail Forex broker’s stock crashed by 90%. Everest Capital’s biggest fund was wiped out. Austrians—those actually from Austria—holding mortgages denominated in Swiss francs began demanding bailouts. Austria’s third largest bank flatlined. FXCM, riding on
the coattails of its own bailout, bailed out some of its customers.\textsuperscript{215} Meanwhile, European equities just kept climbing the Wall of Worry.

Figure 31. Guy who shorted the Swiss franc.

Terrorism started slowly this year but really got outta control fast. Middle Eastern terrorists whacked the main office of Charlie Hebdo in France, the polarizing periodical known for pulling no punches.\textsuperscript{216} Debates about the relative merits of free speech and demerits of hate speech commenced almost immediately. Cultures of honor—cultures in which “dissing” someone brings serious reprisals—often fail to appreciate satire. World leaders promptly faked a highly public rally in solidarity with the people of France: they held it on a deserted street with no French in sight.\textsuperscript{217} I thought this was potentially the end of an ugly chapter that would pass into obscurity, but I was wrong—profoundly wrong. Additional planets came into alignment.

It took me awhile to grasp the enormity of the Syrian refugee crisis. Owing to U.S. intervention in Syria, civil unrest and warring factions have caused countless deaths inside Syria and have sent millions of Syrians and a few imposters scampering across the globe looking for safe spaces. The postage stamp–sized country of Slovenia received almost 100,000 in two weeks.\textsuperscript{218} Germany is estimated to get 1.5 million by the end of the year.\textsuperscript{219} Pictures and videos of the refugee camps elicit sympathy, fear, or anger, depending on one’s perspective. And here is the truly ugliest part: winter is coming. How will millions of Syrians react to sub-zero temperatures? We will soon find out. This has been said to be unprecedented since the 15th century. I’m not sure that is hyperbole.

The final puzzle piece—the Hat Trick Disaster—came on November 13, 2015, when coordinated terrorist attacks in Paris killed and wounded hundreds.\textsuperscript{220} Supranationalism has been simmering for some time. The fuse has now been lit. A must-watch 20-minute video showing the Syrian refugee crisis, whether accurate or profound propaganda, should make your skin crawl.\textsuperscript{221} In the opening chapter of \textit{The West’s Last Chance: Will We Win the Clash of Civilizations?}, the late Tony Blankley describes a hypothetical clash that could potentially bring Europe to its knees. NATO foreign leaders began the year with an out-of-tune and rather corny rendition of “We Are the World.”\textsuperscript{222} They may find themselves singing Queen’s “We Will Rock You.”
“The world stands on the brink of conflict, the consequences of which are not foreseen . . . Not everyone in Europe is aware of this situation.”

~Donald Tusk, prime minister of Poland

China

“Whatever you might think, it’s worse.”

~Jim Chanos, founder of Kynikos Associates, on China

“Once you encourage an equity bubble, it will collapse—and then you are really in trouble. This was utter madness.”

~Albert Edwards on China

“Frankly, it’s not a question of if, but when, China’s financial system will face a reckoning and have to contend with a wave of credit losses and debt restructurings.”

~Hank Paulson, former secretary of the Treasury

China entered 2015 schizophrenically. The economy appeared to be in a severe downturn. The housing bubble had begun collapsing by late 2014. Chinese imports collapsed 19.9% year-over-year in January. Globally, China’s exports dropped 8.3%. Chinese developer Kaisa defaulted on $10 billion in dollar-denominated debt. A bottle supplier for Coke and Pepsi came up short on its debt. A Chinese coal company laid off 100,000 workers. The downturn is self-evident in Figures 32–34. By April the authorities were in full “stimulus mode.”

![China Containerized Freight Index](image.png)

Figure 32
Meanwhile, the Shanghai index was in the midst of an epic equity mania that “added a million millionaires last year.” The Shandong Shihua Shenghua Group IPO was oversubscribed 800-fold. Beijing Baofeng Technology rose 17-fold in 26 trading days in an oddly rhythmic step function (Figure 35). An umbrella manufacturer rose 2,700% in the spring alone. Manufacturers were laying off workers and trading stocks from the shop floor while they waited for the recovery. A record-smashing 4.4 million new “investors” opened stock-trading accounts in a week. (NB: Supposedly a rule change caused investors to open multiple accounts.) Over 5,000 hedge funds opened in six months. The market was claimed to be the most margined market in history with the leverage concealed in “umbrella trusts” (Figure 36).
“I don’t really follow news on stocks that closely. My hairdresser said it was still a bull market, and I needed to get in.”

~Chinese day trader

“The biggest bubble in the world right now is the Shanghai Stock Exchange; when that bursts, it is going to be one of the biggest collapses in the world.”

~Jim Rickards

Figure 35. Price since IPO.

Figure 36. Chinese margin debt.

By May the markets were soaring to new highs, but cracks were appearing in the seams. There were wild oscillations—big plummets that were bought aggressively. Chinese solar maker Hanergy lost $19 billion in market cap in 24
minutes after rising sixfold in a year.\textsuperscript{233} A faucet maker collapsed on earnings manipulation charges.\textsuperscript{234} Goldin Financial Holdings tanked “for no apparent reason” after a 300\% rise.\textsuperscript{235} “No apparent reason” is never a good sign.

In mid-June the market put in a final top and started its decent. The authorities knew it was real and, like every other so-called capitalistic system, fought it the entire way. With only a 10\% correction—a correction of less than four months of gains—there was panic in the Halls of Power. Precipitous drops were stemmed by trading halts across vast swaths of the market. Not being able to sell your shares makes you desperately want to sell your shares. Authorities started denouncing the selling and, when that failed, outlawed the selling.\textsuperscript{236} Their quantitative easing entailed buying shares and mainlining hot money directly into the banks with reverse repos.\textsuperscript{237} China Security Finance Corporation bought shares while authorities investigated and tracked down the sellers.\textsuperscript{238} The corporation promised to never sell its shares, taking one from the playbook of the Federal Reserve. Negative comments about companies or their share prices became illegal.\textsuperscript{239} The China Securities Regulatory Commission commandeered trading records to identify short sellers.\textsuperscript{238} Even Citadel got sanctioned for its high-frequency trading activities.\textsuperscript{241}

\begin{quote}
“I want strong measures to rescue the market.”

~ Li Keqiang, Chinese premier, on August 4, 2015
\end{quote}

\begin{quote}
“Such a ‘helicopter money drop’ is fiscally, financially, and macro-economically prudent in current circumstances.”

~ Willem Buiter, Citigroup on China
\end{quote}

\begin{quote}
“Shoddy Chinese-made stock market collapses”

~ Headline in The Onion
\end{quote}

Buiter is on a roll with his disappointing public proclamations. The authorities finally got enough money into the system and figured how to jam the close everyday, and the markets began to rebound. Call me silly, but I suspect there is more selling to come. If history is any guide, we could see a correction in excess of 80\% before this is over. Welcome to capitalism, guys. It has its highs and lows.

China has been bleeding Forex reserves, and the money supply is under stress.\textsuperscript{242} Not a problem ‘cause they have so many reserves, right? Economist Michael Pettis noted three countries in modern history with huge reserves: (1) U.S. in 1929; (2) Japan in 1989; (3) China 2015.\textsuperscript{243} And your point is? David Dredge of Fortress suggests that Forex reserves are like nuclear weapons: they are good until you have to use them.\textsuperscript{244} Hmmm. And then there is the issue of the long-wavelength business cycle:
The Great Immigration in the U.S. ended monumentally in 1929 after lasting half a century. Japan’s postwar miracle terminated with a bang in 1989. China’s ascent from Maoism beginning with Kissinger’s 1973 visit is now 43 years old. Ray Dalio of Bridgewater Associates says credit cycles are about 40 years.\(^ {245}\) That looks about right. China is mulling a 15–20% devaluation of its currency by the end of 2016.\(^ {246}\) Destroying the currency is every central banker’s first line of defense. The odds of it doing any good are low; the chance of harm, by contrast, seems quite high.

“Our views about China have changed. There are now no safe places to invest.”

~Ray Dalio

“Although Chinese equities have taken quite a hit, the manner in which they have fallen seems bullish in nature.”

~Goldman Sachs analyst

The year in China was not all about markets. First the bad news: China’s private debt is up sevenfold in 10 years.\(^ {247}\) A monumental banking crisis is said by some to be preordained. Kyle Bass predicts a $3 trillion write-down.\(^ {248}\) Those see-through buildings, empty malls, and unpopulated Manhattan-sized cities aren’t going to be extinguishing a lot of debt with rents and revenues anytime soon. Non-performing loans are climbing (Figure 37).\(^ {249}\)

![Figure 37. Chinese loan stresses](image)

There are, however, two new institutions designed to disrupt the West’s vice grip on banking. The first is the AIIB, explicitly designed to bypass the supranational World Bank.\(^ {250}\) Hopes from America that the AIIB would be a dud were dashed when 57 countries signed up (at my last count), which is about 50 more than Western bankers anticipated.\(^ {251}\) There’s a new sheriff in town.
“The United States lost its role as the underwriter of the global economic system . . . I can think of no event since Bretton Woods comparable to the combination of China’s effort to establish a major new institution and the failure of the U.S. to persuade dozens of its traditional allies, starting with Britain, to stay out of it.”

~Larry Summers on AIIB

“This AIIB bank in Asia is the biggest tectonic shift in the world since WW II.”

~Steen Jacobsen, chief economist at Denmark’s Saxo Bank

The second tectonic shift is the China International Payment System (CIPS), which will be in direct competition with the Society of Worldwide Interbank Financial Telecommunications (SWIFT).\(^2\) Sounds like I’m about to foist upon you the cinnamon challenge.\(^3\) In a nutshell, CIPS will offer an alternative to SWIFT as a check-clearing system. Here’s why that matters: We like to use the threat of blocking countries we don’t like (such as Russia) out of SWIFT to blackmail them into submission.\(^4\) Some might call this an act of war, which seems accurate to me. (Japan’s attack of Pearl Harbor, as you may recall, was by no means unprovoked: we had them economically cornered.) CIPS negates this trump card. It wouldn’t be surprising if reprisals against China were thinly veiled responses to CIPS akin to our response to Middle Eastern dictators threatening to undermine the petrodollar. Just as a reminder, China has a 20% imbalance of military-age men over women who, I would imagine, are reaching peak frustration—peak white eye—right about . . . now.

~Ken Rogoff, professor of economics at Harvard University

“If China’s economy, the second largest in the world, twice the size of Japan’s, were to lapse into a meltdown situation such as this one, the effect would more than likely send the world economy into a tailspin. Its impact could be the worst the world has ever seen.”

~Daiwa Institute of Research
Russia

“But when he is disposed of foreign enemies by conquest or treaty, and there is nothing to fear from them, then he is always stirring up some war or other, in order that the people may require a leader.”

~Plato on tyrants, The Republic

“What scares me about the Clash of Civilizations is that the three leaders of the three biggest civilizations—the U.S. (Western), China (Sinic), and Russia (Orthodox)—will misplay their hands.”

~Ben Hunt, Epsilon Theory

I am in the uncomfortable position of siding with Russia for the second year in a row, which makes me the first right-leaning libertarian commie dog. That is not to say that their shirtless, grizzly-riding leader is a good guy. For reasons I will probably never fathom, however, the U.S. appears to be the aggressor. Either I am rolling down Mount Stupid like a Sisyphean boulder, or our leaders are idiots. This is not the first time that we’ve boned it badly. When the Russian archives were sprung open, long-buried documents showed that in Cold War 1.0, the Soviets were reacting to us, not leading. The book The Brothers (see Books) describes in detail how a small number of influential people (such as the Dulles Brothers) can alter the course of geopolitics and history. It appeared at this time last year that we were hankerin’ for a fight. The coup in Ukraine that triggered Russia’s supposed intervention was U.S. sponsored. Evidence that Russia had intervened, provided by Senator Inhofe, appears to be fake 2008-vintage fakes. The Saudis jawboned oil down, putting a beating on the Russian economy. Obama essentially admitted this in an NPR interview. The details have been nicely summarized elsewhere. Somehow we got tricked into providing government backing—U.S. government backing of Ukrainian bonds—garnering them a AAA rating. With moves like that, it’s unclear why our bond rating is holding up.

“Instead of collapsing quietly, the U.S. has decided to pick a fight with Russia. It appears to have already lost the fight, but a question remains: How many more countries will the U.S. manage to destroy before the reality of its inevitable defeat and disintegration finally catches up with it?”

~Dmitry Orlov, former Russian writer

The pressure ramped up this year. Dennis Kucinich described in harrowing detail how Congress used an arcane rule to vote in severe economic sanctions in the dead of night. The twisted part is that it was a unanimous vote of three—yes three—members of Congress. Seems treasonous to me. We went at them on a variety of fronts. Even the FIFA soccer scandal, involving the most
poorly kept secret in soccer history and investigated by U.S. authorities, just happened to undermine the 2018 World Cup in Moscow.

Of course, Putin and Moscow have a few tricks and an insensitivity to public pressure that would make Trump blush. When the U.S. confiscated $640 million from three Russian banks, Russia levied taxes on U.S. multinationals in Russia. After we froze Russia’s assets, the Russians planned a strategic default on debts to the U.S. Whocouldanode? I happen to think that freezing assets is yet another act of war. How would you respond if your assets were confiscated?

“Voice or no voice, the people can always be brought to the bidding of the leaders. That is easy. All you have to do is to tell them they are being attacked, and denounce the pacifists for lack of patriotism and exposing the country to danger. It works the same in any country.”

~Hermann Goering

Russia put the fear of God in Europe by briefly cutting off 60% of its natural gas. As we are trying to tip over Assad for reasons I can’t fathom—it’s not like the Wizard of Oz when the palace guards drop their weapons and break into song—Putin cleverly began attacking ISIS and invited us to join in. Is that a different ISIS than the one we supposedly oppose? (Maybe it’s some ISIS that we did not create.) Certainly the median Joe thinks Russia bombing ISIS is good news. Thank God we haven’t put boots on the ground over there. Just don’t tell this Ukrainian soldier who sounds suspiciously like he came from Alabama when he tells the reporter to “get outta my face.”

“Some of Russia’s international partners have ‘oatmeal in their heads’ because they don’t understand clearly that its military campaign in Syria seeks to help the fight against terrorism.”

~Vladimir Putin

I think we are playing a potentially deadly game of full-contact chess. Every indicator tells me that Putin is totally outplaying Obama. If we survive this without a conflagration that swallows Europe and possibly the world, Russia may have a bright future. As stated earlier in the section “Investing”, I am hoping to put some risk capital to work there. (How mercenary.) Thus, the future of Russia is murky, and the views are dichotomous, so place your bets . . .

“The crisis that Russia is facing now is short-term and not that significant. But countries with a huge government debt, or economies with average debt, have crises caused by domestic factors and, compared to Russia, their problems are much more serious and will last longer.”

~Guan Jianzhong, chairman of Dagong Global Credit
“This is a very dangerous scenario, harmful for all, including the United States itself. The deterrent of nuclear weapons has started to lose its value, and some have even got the illusion that a real victory of one of the sides can be achieved in a global conflict, without irreversible consequences for the winner itself—if there is a winner at all.”

~Vladimir Putin

### Middle East

““In the Middle East, the enemy of my enemy is the enemy of my enemy.””

~Ian Bremmer, president of Eurasia Group

I have reams of notes, quotes, and links about the Middle East. I tried so hard to wrap my brain around it. We had the Iran deal, which I haven’t a clue whether we should support out of pragmatism or oppose out of common sense. ISIS is running around beheading people and statues. It appears as though we started it to oppose somebody (Syria maybe). We then organized Syrians to oppose ISIS. The Russians started opposing ISIS, so we started supporting ISIS. I think I’m having a stroke, but neither my speech nor my limbs are showing it. We have bombed seven countries over there for what I imagine has to do with oil or petrodollars, or just because the world is run by men (and women) trying to be important. If it is about oil, we should buy it up now because they are moving it by the barrel at deep discount. The Saudi oil minister assured us that the Saudis “will not interfere with the oil market.” Now I think my limbs and face are starting to show symptoms. The Terror Report came out, and it was so terrifying that the cover-up commenced immediately. We bombed a Doctors Without Borders hospital, killing many. Of course, it wasn’t intentional, but apparently the doctors (the ones who are left) don’t believe it. On the humorous side (not that this isn’t just a barrel of monkeys already), we spent $41 million training “four to five” to fight one of our enemies . . . or enemies of our enemies . . . whatever. CNN showed evidence of a radical Islam flag at a gay pride parade. Although the similarities were real, most people could see that the symbols were actually dildos and butt plugs.

So that is all I’m gonna say. What?! That’s it for the Middle East? Yessiree. I am so confounded by that complex region of the world this year that I am parked firmly at base camp of Mount Stupid . . . and I am running out of energy . . . ironically. Hopefully our next commander in chief will have a better grasp of the complexities than I do...

“I have to admit that a good deal of what my husband and I have learned (about Islam) has come from my daughter. (As) some of you who are our friends know, she took a course last year in Islamic history.”

~Hillary Clinton
“Amazing how the haters & losers keep tweeting the name ‘F**kface Von Clownstick’…”
~realDonaldTrump

South America

“For sale: Baby shoes. Never worn.”
~Ernest Hemingway’s shortest story

I rarely write about South America—just doesn’t capture my imagination—so here is the Hemingway version. Venezuela is Athens on the Pacific. Their entire economy imploded. Hyperinflation cleared the shelves of all goods. McDonald’s franchises couldn’t get fries, and condoms sold out faster than they do in the Olympic Village, a legendary retailer of condoms. Obama declared Venezuela a security threat (to fat capybaras maybe but certainly not to us) and threatened sanctions. (There are those sanctions again.)

Remember those unstoppable BRICs (Brazil, Russia, India, and China)? Well, that acronym connoting financial progress got set back a few letters. Petrobras, the crown jewel petrochemical giant of Brazil, became saddled with $90 billion of dollar-denominated debt that went south (or was it north?) with the commodity downturn exacerbated by the spiking dollar. I have yet to fully grasp who is holding that bag, but I’m guessing you and me (easy marks for central bankers). The monumentally stupid 100-year bonds pawned off on global investors while the country was racked with corruption are now junk (a euphemism for much worse.) Interest rates are soaring—back to normal. Not to worry, however. Brazil is hosting the 2020 Olympics, which brings legendary riches to the host country . . . or not. I am long Brazilian condom distributors. How about the other countries in South America? No tengo ni idea.

Random Human Tricks

“Shit happens.”
~Forest Gump

We are now transitioning toward the topics on the non-economic side of human folly. Every year, however, I run across stuff that doesn’t neatly fall into any political or economic category yet seems shameful to waste. These are human follies that have gone unnoticed by many and are totally forgotten by the rest. So let’s take a peek at randomness that represented low-water marks in the gene pool this year.

While Denmark was trying to up its birth rate with the slogan “Do it for Denmark,” police in the U.S. discovered a box full of fetuses labeled “do not open” in the evidence room. Ya think? Must have been a Planned Parenthood
investigation. In the world of sports, Tom Brady was deflating his balls while Sepp Blatter, the head of the international soccer—excuse me, football—organization FIFA, was taking bribes . . . in plain sight . . . for decades.\textsuperscript{272} The timing of the scandal is suspicious: the World Cup was working its way toward Russia in 2020,\textsuperscript{273} and we know how much our black ops crowd likes to disrupt Russia. Former decathlete Bruce Jenner became Caitlyn Jenner and, with the aid of magazine-cover photo-shoppers, had men across the world wondering about their sexuality as they muttered, “I’d tap that.” Some got a little testy when Caitlyn won a hero award.

And while we’re talking about switching teams, prominent African American woman and important NAACP administrator Rachel Dolezal was revealed by her decidedly white parents to be, through the miracles of genetics, a blonde white chick.\textsuperscript{274} Some found this heartwarming—there are not many pining for the perks of being black in America. It got a little sketchy when Rachel appeared to have a portfolio for her master’s degree in fine arts stuffed with J. W. Turner repaints.\textsuperscript{275} Way to pick an obscure artist, Rachel. It’s unclear what the professors adjudicating her degree were doing at the time, but so it goes in academia.

A disgruntled spouse with hacking skills released Ashley Madison’s client list.\textsuperscript{276} This is the website through which an estimated 40,000 married men attempted to set up illicit affairs with a bunch of fake women (porn bots). AdultFriendFinder, one of Ashley’s direct competitors in the fake-date space, also got hacked.\textsuperscript{277} Sphincter cramps ensued. Deutsche Bank held its 20th annual Women in Business conference in Singapore and the theme was . . . wait for it . . . “Men Matter”.\textsuperscript{278} Of course, I fully agree, but that’s my privilege.

Harvard’s legal guru Alan Dershowitz and a bunch of other prominent players were accused of participating in a pedophilia ring.\textsuperscript{279} DEA sex parties sponsored by drug cartels cast additional doubt on the already completely discredited War on Drugs.\textsuperscript{280} The foot-long marketed by Subway Jared will be put on hold, as he was discovered ordering off the kiddie menu.\textsuperscript{281} The Free Bill Cosby campaign worked wonders. He’s free!

Cornell was in the news a bit owing to a couple of humorous gotcha moments. One intrepid troll got a low-level dean on tape signing off on starting a Cornell chapter of ISIS.\textsuperscript{282} A poll showed that 96\% of the Cornell faculty leaned to the left.\textsuperscript{283} (Don’t look at me!) O’Reilly had some fun with that one. Cornell was found to be ranked #1 in the Collegiate Division of the Ashley Madison Competition.\textsuperscript{284} Chicken-chokers in the ag school must have played a central role. A woman professing to be suffering from the “microaggressions” riddled throughout the U.S. Constitution tricked administrators from several colleges (including Cornell) into symbolically and therapeutically shredding a copy of the U.S. Constitution.\textsuperscript{285} Speaking of therapy, Ithaca’s Chamber of Commerce finally cashed in its chips owing to brutal weather and suggested everybody go to the Caribbean instead (Figure 38).\textsuperscript{286} Despite this silliness, Cornell is an amazing institution—a studendously diverse institution of higher education.
In the really big folly category, we seem to have populated the Great State of California during the wettest century in the last 1,200 years,\textsuperscript{287} a serious example of recency bias leading hominids astray. As California regresses to the mean—returns to its official status as a desert—water is in catastrophically short supply. A number of cities are literally running out of water.\textsuperscript{288} Lake Meade is losing its status as a lake, and aquifers that charged over millennia have discharged over mere decades. With incredible timing, the EPA discharged some seriously toxic mine tailings (even by a chemist’s standards) into the Animus River and eventually into the Colorado River.\textsuperscript{289} The solution to pollution is dilution, but the optics were not good. PG&E drained a reservoir almost overnight.\textsuperscript{290} Although it appeared to be within its water rights, the reasons were left vague and the optics were, once again, not good. Frackers appear to be excluded from water restrictions,\textsuperscript{291} but the state of fracking suggests that they will not be using much water for a while anyway.

A friend flying from Chicago to Syracuse noticed a guy with a gizmo acting kinda weird. He calls a friend at the FBI saying he is bothered by it. A month later, an article appears saying a guy on that flight was trying to hack the plane’s computer systems.\textsuperscript{292} James Woods made a similar call about odd behavior of some Middle Eastern guys in first-class seats back in August of 2001.\textsuperscript{293} A month later that flight hit the World Trade Center. With 3-D printable guns,\textsuperscript{294} suicide drones,\textsuperscript{295} and $900 flamethrowers,\textsuperscript{296} the world ain’t gettin’ any safer. James Woods was in the news again when he was accused by an irate Tweeter of being a cokehead and sued Twitter to peek behind the accuser’s alias. Twitter’s business model forced them to fight it.\textsuperscript{297} On the mass murder front, I already promised you: I’m not going there (but it was huge this year).

Healthcare had its moments. An acquaintance and former \textit{Russia Today} producer Demetri Kofinas told a moving tale of how a tumor quickly removed a better part of his sanity, and a brilliant doctor pulled off a stick save.\textsuperscript{298} I didn’t notice that when I met him he was already clinging to reality. A 911 operator hung up on a stressed caller who was giving him ‘tude.\textsuperscript{299} The victim died. On a personal note, a wrong address on a 911 call allowed me to bone up on my CPR for about 30 minutes. Meanwhile, opportunistic Martin Shkreli pissed off a few people by hiking the price of an anticancer drug from $13.50 to $750 per pill.\textsuperscript{300} Calls for curbs on the free market are misguided; a truly free market would not have given Shkreli the power to do this. After the beatings subsided, the free
market did step in and offer the cheap drug for a buck a pop. Gotta wonder what Martin’s life expectancy would have been if a few consumers died.

Last but not least, a Good Samaritan working at a museum decided she would take a crack at restoring a fresco of Jesus (Figure 39). Not bad for a first attempt.

Figure 39. Restored fresco

**Patsies and Scapegoats**

“It took less than five hours, of which an hour was for lunch, for the jury to decide that they were full of crap.”

~Mark Cuban on the SEC

(Check out the T-shirt)

There have been some historical folks who could be described as patsies or scapegoats. Herbert Hoover got the Great Depression hung on him. Martha Stewart got pinched for insider trading. (Not really; they got her for fibbing under oath.) Some say the Rosenbergs and Oswald got bad raps, as did Jon Corzine. (Just checking to see if you are still with me.) Let us not forget Christ.
Others are individuals who played a role but took the fall for a much larger or more connected crowd. The boys of Enron were certainly not the only guilty parties, but the no-conviction policy of the DOJ keeps bankers out of court. (I suspect Andy Fastow has a bank account offshore crowdsourced by appreciative bankers.) There was nothing profoundly dramatic this year, but let’s look at a few that will give you a chuckle.

First, a little housekeeping is in order to clean up some scapegoat issues of yore. A jury threw out all 80 counts against Abacus—a small bank in Chinatown that was supposedly the brain trust of the 2008–09 banking crisis. The prosecutor was hoping for xenophobic boost. (This is a common theme.) Abacus appears to be Cyrus Vance’s only mortgage-related prosecution, although it was more of a persecution. Sergey Aleynikov had his case overturned again. The judge noted that “the difficulty of convicting Aleynikov underscores the antiquated nature of criminal law in the area of cybertheft.” No, your honor. He was innocent. Goldman Sachs forgot to give Cyrus Vance and the other prosecutors an actual case. The attack against the Roosky failed. Now who is gonna give Sergey six years of his life back? Aleynikov is going for a $7 million civil suit against Goldman, which will probably be paid by the taxpayers. Jerome Kerviel was convicted of losing Societe Generale some serious Francage, which is a crime when you’re low ranking. An investigator testified that his bosses dumped a bunch of other debris in to exaggerate the losses.

U.S. District Judge Richard Vorhees upheld the conviction of 70-year-old Bernard von Nauthaus for counterfeiting but gave him six months house arrest. Federal prosecutors had asked for a sentence of between 14 and 17 years in prison for creating silver coins that only a total moron would believe were attempts to imitate U.S. coinage. Now if only they would give him all his confiscated assets back. JPM’s London Whale went unprosecuted after years of neglect. He’s dedicating his life to finding the real Whale and freeing Jon Corzine.

Patsy of the Year goes to Navinder Singh Sarao, a 35-year-old Londoner trading from his parents’ basement (Figure 40) and credited with causing the “Flash Crash” on May 6, 2010. Given that it had already been hung on a fat-fingered trader at Dillon Reed years ago, it’s unclear why this case even surfaced. Cui bono? This prompted Bloomberg’s Mark Gilbert (and everybody else on the planet) to note, “The case against Sarao smells strongly of scapegoating.” Business Insider called it “a total joke.” The rest of the world simply coughed a muffled “bullshit.”

“[Sarao]’s not some kind of exception to the standard operating procedure in finance. He’s a parody of it.”

~Michael Lewis, author of The Big Short, and Liars’ Poker

A Senate committee is looking to hang the 2012 leak of sensitive materials from the Federal Reserve meeting on a guy named Seth Carpenter. Others, notably Pedro da Costa, think it runs deeper into the Fed. Some say Yellen. Pedro lost (left) his job at the Wall Street Journal poking Yellen in the eye (see The Fed). Three Nomura traders were charged with lying to customers about mortgage-
backed security pricing. Really? Only three? The Chicago Mercantile Exchange (CME) accused Nassim Salim and Heet Khara of rigging the gold.\textsuperscript{309} Really? Only two? Yes, two, but they were foreigners! The $350 trillion dollar Libor rigging scandal has now led to one indictment. Really? Only one? The 35-year-old big-dick-swinging UBS trader (Tom Hayes) has an interesting defense: he produced a physical copy of a Libor “manipulation” manual.\textsuperscript{310} He got 14 years while the authors of the manual got nothin’. Rumor has it he really was a dick and, after cooperating and being admitted into the Serious Fraud Office’s whistle-blower program, had a change of heart and pleaded not guilty.” WTF? He is said to have Asperger’s syndrome—everybody has a syndrome once they get to court—but there must be a backstory to that one.

Darrell Whitman, a San Francisco–based investigator for the Whistle-blower Protection Program, alerted OSHA leaders that his managers pressured investigators to close complaints without proper review.\textsuperscript{311} He got fired. Now that’s funny. One of the perennial patsies, Dominique Strauss-Kahn, the disgraced French politician and former head of the IMF who got taken out on a rape charge to allow Christine Lagarde to take power, now stands accused of “aggravated pimping” (whatever that is.)\textsuperscript{312} A Dutch central banker was fired for being a “Nazi cross-dressing, nymphomaniac, dominatrix prostitute.”\textsuperscript{313} Reads like the job description of central bankers. Chelsea Manning is facing solitary confinement for life owing to a tube of expired toothpaste.\textsuperscript{314} Toothpaste is OK, but the expired part makes it illegal. The rumor is that higher authorities wished to shut Chelsea off from the media.

There is a Fed report out there that appears to be setting up high-frequency traders to be the patsies in the next downturn—those damned flashboys and their damned machines.\textsuperscript{315} Some speculate that Citadel hired Bernanke to run interference.
Government

“The natural progress of things is for liberty to yield, and government to gain ground.”
~Thomas Jefferson

“I respect the government only in the same sense that I respect any other dangerous predator who views me as food.”
~Will Spencer, unknown to me

“The greatest service our nation’s young people could provide is to lead an army of outraged young Americans armed with brooms on a crusade to sweep out the rascals and rid our capital of the money changers, rent seekers, revolving-door dancers, and special-interest deal makers and power brokers and send them back home to make an honest living—that is, if they still remember how to do so.”
~Gary Hart, former Senator and presidential candidate

A nice synopsis was published describing how the political elite, with help from the courts, are now handsomely compensated for a job well done! The good news is that it is not coming from the pockets of the little guy; an estimated 42% of the cost of what are now expensive campaigns come from the 0.1%. How magnanimous. Without even Googling it, I am guessing their generosity is tax deductible. A Kentucky politician took the Citizens United suit giving politicians unlimited access to private funds to a new level when he declared that even bribes were protected by the First Amendment. Crotchety old farts like Jimmy Carter hammer this pay-to-play system, but it doesn’t matter because the money is too big now to be stopped.

“Ordinary citizens have virtually no influence over what their government does in the United States . . . economic elites and interest groups, especially those representing business, have a substantial degree of influence.”
~Jimmy Carter

There is, however, evidence that government is too large. No. Really? The $1.5 trillion price tag to develop the F-35 fighter jet seems a bit much. One in four U.S. workers need a license to do their jobs, up from 1 in 20 workers 60 years ago. Meanwhile, the revolving door ensures that regulators don’t overregulate. “Revolving door” is a euphemism for “soft corruption,” which itself is a euphemism for “racketeering without risk.” Blythe Masters, former head of JPM’s commodities division, joined an advisory committee of the U.S. Commodity Futures Trading Commission. Nobody can argue she doesn’t know the angles (Joe Kennedy style). Barney Frank—the same Barney Frank
charged with toughening up regulations with the Dodd-Frank bill after the crisis—joined a bank board. No conflict there.

“For six years, while brilliantly disguised as the attorney general of the United States, he was actually working deep undercover, DiCaprio in The Departed-style, as the best defense lawyer Wall Street ever had.”

~Matt Taibbi, Rolling Stone journalist, on Eric Holder

There are detractors, however—albeit not in large numbers. As Eric Holder returned to Covington and Burling, one of Wall Street’s favorite law firms, an irate FBI agent reamed him out for his policies. Forty-seven inspectors general—the officials charged with fighting corruption, waste, and wrongdoing in federal agencies—sent a letter to Darrell Issa’s committee complaining that organizations ranging from the EPA to the DOJ were impeding their investigations by withholding information. More than 110,000 people have signed a petition to remove Mary Jo “MoJo” White as chairwoman of the Securities and Exchange Commission for doing absolutely nothing. (Doing nothing actually puts her above the mean for inside-the-Beltway employees.) Business Insider nicely summarized the winners of the regulator-turned-banker awards. It named names but not salaries.

“Dear Loretta Lynch,
Please, for the love of God, and rule of law, investigate Eric Holder for crimes against the United States.”

~Eric Hunsader, CEO of Nanex

Lois Lerner stayed in the news owing to her using the IRS as a weapon—“We’ve got what it takes to take what you’ve got”—against political opponents of Obama. After the worst epidemic of disk crashes in history, supposedly two IRS employees “purposefully deleted 422 computer backup tapes” containing tens of thousands of Lois Lerner e-mails “by accident.” Apparently, Lois took a hint from Hillary and set up a personal e-mail account named “Toby Miles” for conducting IRS business. Judge Emmet Sullivan called bullshit and ordered the IRS to fork up newly rediscovered e-mails—tens of thousands of them at the bizarre rate of 1,800 every Monday . . . until the year of our Lord . . . whatever. How about just handing them over? Judicial Watch documents show that the IRS scandal is also a DOJ and FBI scandal . . . so the FBI was called in to investigate.

The CIA always seems to be in a pickle. The few books I’ve read on the topic paint the uniform picture of an agency that can’t get out of its own way (see The Brothers in Books). Frontline did a nice exposé on how the production of Zero Dark Thirty was propaganda. Is anybody surprised by this? Seymour Hersh, known for exposés on the My Lai massacre and Abu Ghraib torture, did one on the Bin Laden raid. This topic didn’t seem that new given that Wikileaked Stratfor e-mails discussed in last year’s review showed that the Bin Laden raid had some serious bullshit in it. The CIA’s attempt to control the media dates back to the Cold War under the name Operation Mockingjay. The CIA finally
came clean: it showed up on Twitter with content that made it a parody account.

“"I walked out of Zero Dark Thirty, candidly . . . I couldn’t handle it. Because it’s so false.”

~Dianne Feinstein, chair of the Senate Intelligence Committee

Not to be outdone, the FBI and closely affiliated DOJ had their moments in the scalding light of day. General David Petraeus got no jail time for divulging state secrets to his main squeeze. The $100,000 fine is less than he gets for a single speech.\(^{335}\) Glenn Greenwald claims that every FBI-thwarted terrorist plot had informants so deeply embedded that they appeared to be the instigators of the plots.\(^ {336}\)

“I want to reiterate to all Department personnel, including attorneys and law enforcement officers, that they are prohibited from soliciting, procuring, or accepting commercial sex.”

~DOJ memo

I’d love to write about the Trans-Pacific Partnership, an extensive trade agreement, but getting even the foggiest idea of what’s in it is nearly impossible. The details were kept behind locked doors (literally), such that only members of Congress can read them (members who can read, that is).\(^ {337}\) The agreement is rumored to be favorable to big-cap pharma—shocking!—but that alone doesn’t tell you whether it’s good or bad. The secrecy, however, leaves a lot of doubt. By and large, government was as competent and honest this year as any other year—SNAFU and FUBAR Siamese (sorry—conjoined) twins.
Election 2016

“I will no longer make references to women’s bodily functions. Period.”
~Donald Trump

“On some great and glorious day, the plain folks of the land will reach their heart’s desire at last and the White House will be occupied by a downright fool and complete narcissistic moron.”
~H.L. Mencken

What an amazing pre-election season. We found ourselves looking at lesser evils that included a socialist, a narcissist, a sociopath, a couple of physicians, a preacher, and a high school kid named Brady Olsen. The republicans—the RNC in particular—were in rare form: it’s not every day a party attempts to utterly destroy its front-runner and utterly fail. We are talking about the narcissist, the Donald, @realDonaldTrump, commander and chief of legions of Trumpkins. While sporting a Tribble on his head, Donald Trump has shown unimaginable chops. Tweeting nasties, attacking opponents like a junkyard dog, insulting Megyn Kelly on her intellect and feminine hygiene. He gave out Lindsay Graham’s cell phone number on national TV and called him “a beggar.” In the most surreal chapter in political strategery, it worked. It worked brilliantly. He found himself with a massive lead that kept widening no matter what he said. The crowds roared. The RNC was in a full-blown panic and taking survival doses of beta-blockers.

“The Republican plan to destroy Donald Trump”
~Headline on Business Insider

Efforts to knock the Donald off the stage simply made the media look more inept than theoretically possible through penetrating questions to the front-runner like “When are you going to drop out?” Similar queries to the democratic front-runner, by contrast, would be totally valid . . . but I’m getting ahead of myself. Completely failing to rip Trump from the stage, the RNC tried to resuscitate Jeb Bush, but Jeb suffers from Cotard’s syndrome—a rare neurological disorder in which the victim is convinced he is dead.

“Sorry Mom.”
~@JebBush, Tweet from the grave

Republicans who couldn’t fog a pollster’s mirror started looking like rock stars according to rapidly evolving polling methods. Next came Ben Carson. Best I can tell the only thing he has experience in running is a nose. His strategy of quoting wildly from the scriptures, all the while with his eyes closed, looked like
a complete bust to untrained (but open) eyes, but some “polls” showed him overtaking Trump. I sensed that Luntz guy was up to no good again. Ben took it to the hoop with an interview in which he described the substance behind the candidate and his early surgical training:

“I had real anger issues. I would just fly off the handle and really become quite irrational and try to hurt people with baseball bats, hammers, whatever. In this particular case, I happened to have a large camping knife. And, you know, one of my friends angered me. And I just lunged at his abdomen with the knife. Probably would have seriously injured or killed him, but he happened to have on a large metal belt buckle under his clothing, upon which the blade broke.”

~Ben Carson, presidential contender

“[W]hen you look at the way that the pyramids are made, with many chambers that are hermetically sealed, they’d have to be that way for various reasons. And various of scientists have said, ‘Well, you know there were alien beings that came down and they have special knowledge and that’s how—’ you know, it doesn’t require an alien being when God is with you.”

~Ben Carson, former presidential contender

The whole thing degenerated from that point, with pundits comparing the candidacy of Trump to Kanye West, but it didn’t stop there. The high point came when a 15-year-old Iowa kid filled out an application to run for president under the name “Deez Nuts.” (I would have gone with Hugh G. Rection, but that’s splitting hairs.) What is amazing is that a 15-year-old male was able to complete anything. Despite his obvious presidential credentials, even young Mr. Nuts could not have foreseen what came next: a prominent pollster did a little nut-busting of his own by putting Deez on a poll ballot, and Mr. Nuts came in third place with 9% of the vote (Figure 41). The notoriety probably got him an extra base or two at the next high school dance. Even if it didn’t, the kid’s gonna have a killer essay for his college applications. One can only wonder where Jeff Dahmer would be polling if still alive.

Figure 41. Presidential front runners
“We do not trust our institutions because they have shown themselves to be untrustworthy. The drumbeat of institutional failure echoes among the populace as skepticism . . . We are in the midst of a broad and devastating crisis of authority.”

~Chris Hayes, MSNBC

The Clintons

“We have to end the flood of secret, unaccountable money that is distorting our elections, corrupting our political system, and drowning out the voices of too many everyday Americans . . . Our democracy should be about expanding the franchise, not charging an entrance fee.”

~Hillary Clinton

You thought I forgot the Clintons? I had to finish the amateur division first. Trigger warning: Hillary fans really—really—should skip this section. It is unvarnished antagonism.

It turns out that an estimated 4% of the population is composed of sociopaths, which means on a purely statistical argument, the odds of Bill and Hillary getting together was ≈0.2%. Besides noting the tsunami of scandals appearing daily, I completed a two-part preparatory sequence: (1) *Sociopath Next Door* by Shelly Fraser, and (2) *Clinton Cash* by Peter Schweizer (see Books). Other recommended readings include “How to detect a liar” and a documentary on psychopaths. For the darkest of conspiracy theorists, I recommend the "Clinton Body Count." and the official list of Bill Clinton’s payback pardons for primarily bank frauds and drug runners. For some serious entertainment and insights into life in Arkansas, watch *The Clinton Chronicles.* Although this low-budget documentary is an acquired taste, a couple of dozen politically connected cronies describe graft, corruption, and ties to other crime families including South American drug cartels.
“In a sane world, this kind of corruption would be disqualifying.”

~Columnist Ed Morrissey in *Clinton Cash*

Hillary has left a slime trail since she first learned to slither. “One of the best jobs I had to prepare me to be president was sliming fish in Alaska.” She was fired within a week.  

Hillary also says she tried to be a marine on one occasion and an astronaut on another, only to be pushed back by the glass ceiling. Her attempts to be a lawyer were even stalled when she flunked the bar exam. Hillary first cut her teeth in politics as an intern in the Watergate investigation and, with a touch of irony, she supposedly got fired on an ethics violation. (Snopes says there are serious holes in this story.) She and Bill moved into Arkansas politics, where vipers are welcome. She managed to get embroiled in Whitewater land deals that proved intractably complex. In 1978 she tried her hand at cattle futures trading. While her broker got sanctioned by the CME for nefarious tricks like slipping only the good trades into her account, Hillary got a 100-bagger on her investment. Not exactly a Martha Stewart plot line.

“He is complicit but he is not as deceitful as Hillary Clinton is. Don’t get me wrong, they are both missing the integrity chip, but while she is inherently dishonorable, his seems to be learned behavior....I think the most compelling thing about Hillary is that she will stop at nothing to achieve her end and that she views the public as plebeians easily seduced into believing her point of view.”

~Linda Tripp

Hillary followed Bill to the White House—“first Bill then Hill,” according to Linda Tripp—and got right to work cleaning the riffraff out of the White House travel office and replacing them with other riffraff. Travelgate crossed the line from political hijinks to sociopathy when she used trumped-up charges and prosecutions to flush out obstinate squatters. Bimbogate was an ongoing affair in which a host of women competing for Bill’s affections (and threatening Hillary’s ambitions) were squashed like cock roaches. Hillary supports women’s rights . . . except for when it comes to Bill’s concubines.

“My husband may have his faults, but he has never lied to me.”

~Hillary Clinton

Eventually Hillary got a real job, obviously starting at the bottom as a senator from New York. After blowing her first interview to be POTUS, she took an interim position as secretary of state. This résumé booster served as an extraordinary platform to launch a fund-raising campaign for another presidential run. She was the Ashley Madison of geopolitics. The mortality rate of Clinton affiliates continued to climb when some minor confusion in Benghazi provided awkward results. Although Benghazi got everybody’s underwear in a
bunch, I haven’t mustered enough bandwidth to distinguish incompetence from moral depravity.

The fund-raising capacity of Bill, Hillary, and the closely affiliated Clinton Foundation evolved from a cottage industry to a multinational crime syndicate. To Obama’s credit, he recognized that Hillary would be off the reservation while on the job and tried to get her to promise to behave (to no avail).\(^{354}\) Hillary and Bill are estimated to have made at least $30 million over the last 16 months, with the bulk of their income derived from more than 100 paid speeches.\(^{355}\) Hillary Clinton makes 10.7 times as much for one speech as the median U.S. wage earner makes in a year.\(^ {356}\) According to Byron York, Hillary Clinton made more than enough to join the 1%—$625K—in a single day by making two speeches in Silicon Valley.\(^ {357}\) Bill makes even more. What’s so odd is that presidential honoraria drop off with time as Potus’s go past their expiration date. Bill’s, by contrast, soared when Hillary became secretary of state. Even Chelsea could commandeer a twofold multiple of the median American’s annual salary for a typical speech.\(^ {358}\) Her résumé is a little thin still but is currently undergoing an upgrade. Before we get into the graft, let’s first take a gander at the federal statute on quid pro quos:\(^ {359}\)

\[\text{A public official cannot “receive or accept anything of value personally or for any other person or entity, in return for being influenced in the performance of any official act... to do any act in violation of the official duty of such official or person.”}\]

![Foreign Donors](image)

**Figure 42. Foreign donors to Clinton Foundation**

Seems straightforward enough. It is also true that letting rich foreigners influence our national elections is especially frowned upon (Figure 42). If you don’t have time to read *Clinton Cash*, take a look at the list of Clinton Foundation donors over a two-year period.\(^{360}\) Some of the ethical and legal boundaries Bill and Hillary have crossed are as follows:
• A mining deal led to a $100 million donation to the William J. Clinton Foundation.\textsuperscript{361}
• Chinese firm Rilin Enterprises made a $2 million foundation pledge . . . to get rights to build the new Chinese Embassy in Washington.\textsuperscript{362}
• The \textit{Wall Street Journal} reported that as secretary of state, Hillary didn’t stop the foundation from raising millions of dollars from foreigners with connections to their home governments.\textsuperscript{363}
• Algeria gave the Clintons $500K, Hillary approved $5M of tear gas exports, and then Algeria gassed its own people\textsuperscript{364}
• The \textit{New York Post} claimed to know of 181 Clinton Foundation donors who also lobbied Hillary’s State Department\textsuperscript{365}
• Bill Clinton sought paid speeches in North Korea and the Congo according to e-mails: His price tag in the Congo would have been $650K—probably more than the country’s annual GDP.\textsuperscript{366}
• Clinton aides started a Canadian charity that, despite a pledge of transparency, shielded the identities of donors who gave more than $33 million.\textsuperscript{367}
• Cisco dumped $1 million into the Clinton Foundation . . . and won the Foundation’s award for “outstanding corporate citizenship.”\textsuperscript{368}
• Uranium One’s chairman used his family foundation to make four donations totaling $2.35 million . . . eventually cutting a deal with the Russians to buy Uranium One.\textsuperscript{369}
• The State Department approved sales of uranium to Russia as Hillary’s family foundation hauled in $145 million from investors in the deal.\textsuperscript{370}
• Frank Giustra, a mining financier, has donated $31.3 million to the foundation.\textsuperscript{371}
• Work for Ex-Im Bank by the State Department was followed, a couple of months later, by a $200,000 speaking fee for Bill at Goldman.\textsuperscript{372}
• Hillary intervened for UBS to get it out of a jam with the IRS and soon thereafter Bill was invited to give a $1.5 million talk.\textsuperscript{373}
• The Clinton State Department gave Algeria a one-year, 70% jump in U.S. arms deals just after the Algerian government donated to the Clintons.\textsuperscript{374}
• Algeria, Saudi Arabia, Kuwait, the United Arab Emirates, Oman, and Qatar donated to the Clinton Foundation . . . to gain State Department clearance to buy caches of American-made weapons even as the department singled them out for a range of alleged evils.\textsuperscript{375}
• The foundation received between $50,000 and $100,000 from the scandal ridden FIFA . . . to help chose a few cities for the World Cup.\textsuperscript{376}
• Qatar’s World Cup hosting committee donated hundreds of thousands to the Clinton Foundation\textsuperscript{377}
• Arizona State University raised tuition yet spent $500,000 on the Clintons. I imagine the institution did \textit{not} lose money on the deal.\textsuperscript{378}
• Bill Clinton received $16.46 million in payments from a George Soros-backed for-profit education company as Hillary Clinton’s State Department funneled tens of millions of dollars to a group run by the company’s chairman.  

• Colombian oil money flowed to the foundation . . . as the State Department took no action to prevent labor violations.  

• Bill got $2.5 million in speaking fees from Silicon Valley tech companies while Hillary handed out $40 billion in contracts to the same companies.  

• Hillary took Monsanto (GMO) money, which must drive the Democrats nuts.  

• Other disclosures include 27 speeches delivered by all three Clintons at universities and professional schools. Hillary supported $350 billion in free tuition (free for everyone except the taxpayer).  

• The Clinton son-in-law raised millions from longtime Clinton supporters for a new hedge fund firm, Eaglevale Partners, in 2011.  

• The CEO of Solazyme received $149 per gallon of gasoline from the military and donated between $100,000 and $250,000 to the foundation.  

• The Rockefeller Foundation appears to have donated hundreds of millions of dollars to the Clinton Foundation. How weird is that?  

• Hollywood collectively ponied up $15 million expecting nothing at all, and that is what they will get.  

For three years in a row beginning in 2010, the Clinton Foundation reported to the IRS that it received zero in funds from foreign and U.S. governments. It seems to have forgotten about an estimated 1,100 foreign donors. Maybe it was holding back on both because of charges that it hasn’t adequately disclosed its finances. Only 15% of foundation funds made it to charities, whereas 60% was listed under “other expenses.” The nation’s most influential charity watchdog put it on its “watch list” of problematic nonprofits.  

“It if there was some foreign policy experience or brilliance Hillary Clinton had ever shown, maybe we overlook the fact that she and her husband have never met a foreign political donor they don’t like and haven’t taken from.”  

~Christopher Hitchens  

“It seems like the Clinton Foundation operates as a slush fund for the Clintons.”  

~New York Post  

Before moving on from the Clinton cash machine, one could argue it is unfair to provide only one side. Let’s hear the Clintons’ side of the story in their own voices and those of their supporters:
“The Clinton Foundation is doing ‘a lot more good than harm.’”

~Bill Clinton

“No one ‘has ever produced a shred of evidence supporting the theory that Hillary Clinton ever took action as secretary of state to support the interests of donors to the Clinton Foundation.’”

~Brian Fallon, spokesman for Mrs. Clinton’s presidential campaign

“We’re not going to make a retroactive review on these cases, and we will not make a retroactive judgment.”

Jeff Rathke, State Department spokesman, on Hillary’s undisclosed donors, ignoring the fact that all reviews are retroactive

“She was pretty busy those years. I never saw her study a list of my contributors, and I had no idea who was doing business before the State Department.”

~Bill Clinton

“Has anybody proved that we did anything objectionable? No.”

~Bill Clinton on the Clinton Foundation

“There are rich people everywhere. And yet they do not contribute to the growth of their own countries.”

~Hillary Clinton

“I will still give speeches though on the subjects I’m interested in.”

~Bill Clinton on speeches after his wife becomes president

It is not obvious to me that the Freedom of Information Act should get you access to e-mails by the secretary of state. It’s awfully hard to do that job without secure communications. That opinion aside, Hillary set up a private, albeit unsecured, server that she presumed was out of view of all prying eyes, not just the public’s (and seems to have been backed up on 8-track tapes). A Romanian hacker burst that little delusion. Recall that General David Petraeus, CIA head John Deutsch, and a four-tour war hero all were punished for passing unsecure intel. There are two fundamental problems with Hillary’s e-mail protocols:

(1) By running a private server, she forced anybody communicating with the secretary of state to send e-mails to an unsecure server. She forced them to
breach federal laws collectively so that she could cover her ass—“just e-mail it.” Some were clearly troubled by it.

(2) Once the congressional committee chaired by Trey Gowdy served a subpoena for the e-mails, she had to give them up. Hillary claimed never to have received the subpoena until Gowdy showed her a copy.395

“About three people won’t vote for Hillary because of emails.”
~Journalist Cokie Roberts

So what happened? It was working fine for Hillary until Obama senior advisor Valerie Jarrett leaked the server’s existence to the Benghazi defense team headed up by Gowdy.396 The blurring of official business, potentially embarrassing personal notes, and the graft and corruption from personal and foundation fund-raising efforts made this a little awkward.

The hunt was on. Everybody—Congress, Trey Gowdy, the AP, the Republicans, the American public—wanted to see those e-mails. Hillary said she destroyed them. Her lawyer said that he told her to destroy them,397 and, in a South Park moment, noted that “it’s all gone.” She became “deleter of the free world.” That is obstruction of justice or contempt, which gets you prison time in the free world (ironically speaking). Platte River Networks, the company that managed Hillary’s private e-mail server, said the server “wasn’t wiped.”398 A Clinton aide with no knowledge of federal disclosure laws was charged with vetting the e-mails that were released.399 The FBI finally got them.400 The intelligence agencies are shitting bricks. All is back to normal.

My wife says I am prejudiced against Hillary (although is no fan). I say I am well informed. For the first time in my life, I have detested a presidential candidate. Defenders of Hillary and Bill say, “Oh. They are all crooked.” No. The Clintons are grifters of a higher order. Their graft has its own zip code. If you support Hillary on her views, so be it. If you support her just because she’s a woman, you only get one soul and you are about to sell it to achieve a pyrrhic victory in the battle for social justice. And for Clinton detractors, heed the warning of Yoda: “There is another.”

“One of the merits is I am a woman.”
~Hillary Clinton

Civil Liberties

“Please be aware that if your spoken words include personal or other sensitive information, that information will be among the data captured and transmitted to a third party.”
~Warning on Samsung television
Every year I dive into civil liberties; we seem to be creeping toward fascism, and it is a ratchet mechanism. You don’t get civil liberties back. Let’s begin with a few snippets of breaches that popped up on the radar this year:

- Kalief Browder, who spent three years getting beaten and raped at Rikers Island without ever going to trial on the charge of stealing a backpack, committed suicide.\(^{401}\)
- A guy in Louisiana serving 10 years for possession of two joints owing to repeat offender laws was denied a pardon by Bobby Jindal because “he hadn’t served enough time” (only 4 years).\(^{402}\)
- Repeat offender laws got one pot broker a 55-year sentence.\(^{403}\) (We are talking about a drug that makes teenagers drive slowly.)
- A labor lawyer wants to shut down Uber because not having a job is better than having one under the complex labor laws.\(^{404}\)
- Hundreds of dollars of court fees were assessed after a “not guilty” verdict. The defendant couldn’t pay, so he went to jail.\(^{405}\)
- Oklahoma wants to ban hoodies ($500 fine).\(^{406}\)
- Schools are introducing iris scanners after a student was left sleeping on a bus.\(^{407}\)
- A lemonade stand run by two girls to raise money for a Father’s Day present was shut down for breaking state laws on food sales. These two hardened criminals are now evading the statutes by giving it away for free and accepting donations.\(^{407}\)
- A couple was arrested for letting their 11-year-old play basketball outside waiting for them to return home.
- An Islamic scholar spent years in jail for potential terrorism based on his books about Islam. A new judge sprung the terrorist free owing to lack of evidence.\(^{408}\)
- David Eckert was forced to undergo an anal cavity search, three enemas, and a colonoscopy after allegedly failing to obey a stop sign in a Walmart parking lot. No drugs were found.\(^{409}\)
- Texas State Representative Jason Villalba introduced a bill to ban citizens from filming police within 25 feet.\(^{410}\)
- A guy debunking lie detectors may be going to prison for obstruction.
- Owners of a barbershop “for men” must pay $750 in fines for “discriminatory” practices.\(^{411}\)
- Owners of a family-owned bakery who refused to profit off a same-sex wedding cake have been told to pay $135,000.\(^{412}\)
- Tardy payment of dog licensing fees appears to lead to jail time.\(^{413}\) (I was on the lam for a while myself.)
- A U.S. highways funding bill has a provision to revoke or deny issuance of a U.S. passport to anyone who has a large outstanding tax debt to the IRS.\(^{414}\)
“We used to call such systems as people sitting in prison serving sentences that were illegally imposed ‘gulags.’ Now we call them the United States.”

~James Hill, appeals court judge

In a huge story that just died for some reason, the FBI admitted that over several decades, an estimated 95% of hair and particle analyses were deemed overly optimistic and invariably favorable to the prosecution. Retrials are being considered in 46 states for those folks still in jail and not yet executed. It is amazing that the FBI ‘fessed up.

Asset forfeiture is a euphemism in which the authorities seize your assets without cause and due process. I wrote a lot about it last year. There have been more than 70,000 cash seizures without an arrest or charge since 9/11 totalling $2.5 billion. By federal law, 80% of these assets are returned to local law enforcement to help balance budgets. No conflict there, eh? It scares the hell out of me because (a) I have assets to forfeit, and (b) my sense of violation and need for retribution would be overwhelming. I wrote about it extensively last year. A few more comments are warranted.

“While no one condones looting . . . one can understand the pent-up feelings that may result from decades of repression.”

~Donald Rumsfeld on Iraq . . . I think . . . maybe not

Eric Holder has spoken out against asset forfeiture, but his replacement (Loretta Lynch) is the queen of asset forfeiture. Montana has banned asset forfeiture without a conviction. Seems like that was covered by the Bill of Rights, but I could be wrong. A student, Charles Clarke, had his savings seized because his luggage smelled like weed. He was charged with resisting arrest, but that was dropped. He wants his money back. Sorry, kid. Cops are now seizing cars that are uninsured. A convenience store owner lost his accounts because he was depositing unusual amounts of cash—unusual unless you run a convenience store. Cops raided a pot shop—a legal one. They harassed an amputee, ate the brownies, played darts, and, of course, destroyed the video cameras. Oops. They missed one.

Number of police officers killed by firearms in 2015: 21
Number of people killed by police since Wednesday: 24

~Radley Balko, author of *Rise of the Warrior Cop*

A few examples of police violence can look like an epidemic, but some are nasty. The guy I wrote about last year who stole a horse and got beaten like a rented mule got a $650K out-of-court settlement within a couple of weeks of the beating. A 24-year-old University of California, San Diego (UCSD) student got jailed and forgotten for five days and ended up drinking his own urine. It sounds like a UCSD fraternity hazing scandal to me. He settled for $4.1 million.
dragged into a police van didn’t make it out alive. Sandra Bland failed to use her turn signal and died in a cell three days later. A cop who shot into a carload of unarmed teens got caught when a disgusted judge released the video to the public after nothing happened. Chicago supposedly runs a black ops (Stasi-like) headquarters called Homan Square where problem citizens are held for indeterminate periods of time for interrogation. The defense of reckless police behavior—the shoot-to-kill policies—is often justified by the men in blue because of the extreme risk. Statistics on job risk show that fatality rates among police rank 14th, below garbage collectors, cab drivers, construction workers, and farmers, to name a few. Firemen run into burning buildings without hesitation. Thank you, guys. You ran into my house when I was a kid.

Child-rearing has come under fire. I understand the notion that a kid in danger needs help, but the definition of danger has gotten a little nuts. Hospitals are confiscating kids out of disagreements about appropriate medical care. When I was a kid, we went out to play—unsupervised by adults. It was Lord of the Flies until dinner. We got no participation trophies from all of those sandlot sports—not a single one. That is now called “free-range parenting” and is drawing fire. Social services nabbed a couple kids because the parents let them walk to school unescorted. I had such a thing happen when I was a young parent. The social services woman showed up and started quoting scriptures at me. I wryly noted that “you are close to getting thrown out the door onto your fucking head” to my wife’s dismay.

So here’s the deal, folks. You give up civil liberties one at a time, and you don’t get them back. You need to fight these battles with the tactics and enthusiasm of the National Rifle Association.

“I can feel, maybe not a revolutionary mood, but something like widespread impatience. When impatience becomes not an individual but a social experience of feeling, this is the introduction for revolutions.”

~Donald Tusk, prime minister of Poland

Campus Life: the Good, the Bad, and the Ugly

“Let’s get something straight right now. You have no right to be unoffended. You have a right to be offended with regularity.”

~Mike Adams, criminology professor at the University of North Carolina-Wilmington

I gave a talk in Las Vegas on this topic. My vantage point as a right-leaning libertarian on a college campus leaves me aghast at times. I enthusiastically support higher education—its demise is way overstated by some—but we are in a period of stunning upheaval. This section leads into treachery that my wife urges me to avoid, but that’s not my nature. I am moved by a rape case in which I believe the young male was convicted and imprisoned by political correctness. I have evidence not allowed in court that, if I
were a juror, would have swung my vote to not guilty. This is no time for cowards.

“University professors look upon their bodies as a form of transport for their heads. It’s a way to get their heads to meetings.”

~Sir Ken Robertson, TEDx Lecturer

“Professors are a series of individual faculty entrepreneurs held together by a common grievance over parking.”

~Clark Kerr

The Good. There is no shortage of misinformation about student costs. A colleague (Ron Ehrenberg) has spent a career trying to understand the economics of higher education, and it is not simple. If one looks at strong schools, the rate of growth of the full sticker price does not reflect the growth of the price paid. The latter remains considerable, I hasten to add. These strong schools collect less than 50 cents on the dollar of tuition and fees. The actual cost of educating a student at an elite school is well in excess of $100,000 per year. The balance comes from other sources including endowments and generous alumni donors. Buildings at Cornell bear the names of Baker, Olin, Gates, Duffield, Klarman, Weill, and Rockefeller to name a few. Those are tributes to their gratitude, generosity, and capacity to create wealth. I watch remarkable talents acquire skills that will prepare them for a lifetime of success. Go to a credible school, study the right subject, and work hard; it will be worth every penny.

Kid: I’m drawing a picture of God.
Teacher: Nobody knows what God looks like.
Kid: They will in a minute.

The Bad. The costs are mounting across society. We have an estimated $1.3 trillion dollars of student debt. The majority of it—upwards of $1 trillion—is tied to for-profit institutions whose graduation track record is abysmal. Job placement at graduation is harder to track but rumored to be abysmal. Corinthian Colleges just went bankrupt, prompting discussions of a federal bailout—a debt jubilee—for those who got a Corinthian sheepskin (which isn’t worth the hide it’s printed on.) These for-profit student loans are 50% in default. Half of all student loans are in deferment, and 23% are in stress. I imagine there will be taxpayer-funded debt jubilees for many students. Our main task as aging old farts is to hike up our pants and bitch about the
government and the sad state of America’s youth: it’s a right of passage to the light. Something has changed, however. Maybe it’s too many adult-supervised activities and participation trophies and not enough free time to get into trouble. Digitally induced frontal lobotomies—quite literally according to neurophysiologists—have shrunk attention spans and reduced their capacities to grind on challenging problems. Texas A&M-San Antonio students used online reading assignments that could be monitored. They read an average of 169 minutes per semester. Fault aside, if that study portrays an accurate picture, that school should not exist. It is failing to achieve the most minimal of goals. Many kids don’t take notes anymore; they photograph the blackboard with their iPhones, which frees up time to text their friends. They are talking incessantly in class, you just can’t hear them. A study shows that a third of college students believe they deserve a B grade as long as they attend most classes in a course. The kids may have found a “safe place,” but they are about to enter a very unsafe professional world armed with subprime educations.

Meanwhile, student loan providers like Navient have hedge funds circling as the CEO assures investors that there is no risk of a serious student loan default. Authorities in some states are revoking driver’s licenses for those defaulting on student loans. That’ll work out peachy.

“We lent a trillion dollars to kids who couldn’t even get into a real college.”
~Porter Stansberry, Stansberry Research

“Online university allows students to amass crippling debt at own pace”
~Headline from The Onion

Where does all the money go? There is some legendary squandering. Montclair State dropped $210,000 on a statue of the school mascot. Arizona State dropped $500K bringing Hillary to campus (although I’m sure there was a quid pro quo.) Hillary’s plan to give away $350 billion in free tuition will cost the taxpayers $350 billion (plus administrative fees, waste, and graft). I suspect it will find its way disproportionately to schools that invite Bill and Chelsea for speeches.

College students live in better dorms, eat better food, and are educated in better facilities than their college-educated parents did. It’s an arms race. Nobody doubts that middle management is also bloated, but that is a nuanced narrative as well. Universities are increasingly burdened by unfunded mandates to provide more information to federal and state authorities. Many more staff are mandated to satisfy quality of life issues (vide infra). From my perspective, the budgets at the department level have shrunk over the last 35 years.
“Congratulations class of 2015. Life’s not fair. It never was, isn’t now and won’t ever be. Do not fall into the entitled trap of feeling like you’re a victim. You are not.”

~Matthew McConaughey

Matt’s been there and done that. Here’s the bottom line: $200,000 is too much to pay to “find yourself.” I’ll find you for half that. Students need to be consumers. Some majors should be minors, some minors should be courses, and some courses should be history. Follow your dream—I get that and did that—but college is about developing skills for a career. If you are a parent and your kids don’t get this, stop squandering your life’s savings. Coax them into the workforce for a year or two. Both my kids got off campus for a while and were better for it. Miraculously, both worked near great ski resorts. What are the odds? Parents need to shake the fear that they’ve raised college dropouts. A paltry income in the working world will send the kids high-tailing it back to school with a sense of purpose.

“I’m offended by the notion that I can’t write something that offends people.”

~Radley Balko, author of Rise of the Warrior Cop

The Ugly. There is a wave of political correctness sweeping across campuses with victims left in its wake. The term “politically correct” is considered a microaggression—an antagonistic concept that is so small that it demands the moniker “micro” and so monumental as to elicit pusillanimous overreactions by administrators. Greg Lukianoff and Jonathan Haidt describe the mess in the year’s most prominent diatribe entitled, “Coddling the American Mind.”\textsuperscript{444} Phrases like “America is the land of opportunity” and “I believe the most qualified person should get the job” are now egregious examples of privilege. University of Wisconsin-Milwaukee has banned “lame” and “thug,” apparently to protect the feelings of lame thugs. To avoid having students feel unsafe, schools are increasingly turning to “trigger warnings”—foreboding alerts that feelings could be hurt by some lurking microaggression. You may find this
absurd, but it is impacting careers and lives. *Southpark* has committed an entire season to the theme of “PC Principal”. The students are being called “snowflakes.” *We did this to them.*

“I gave trigger warnings before every scene I screened. Every Single One. This wasn’t enough.”

~Rani Neutill, teacher of a college course on sex in the cinema

Some events this year that reasonable people in the real world might find rather odd include:

- A liberal professor anonymously penned a letter saying he was afraid of his liberal students.\(^{445}\)
- A dean of students resigned because he “didn’t want to be dean of sexual assault.”\(^{446}\)
- Comedians—guys like Chris Rock—refuse to come to campuses because of the risk they will offend somebody.\(^{447}\)
- Harvey Mudd had a mad scientist–themed party—Mudd Goes Madd—and students from nearby Pomona College had it shut down because of derogatory implications on mental health.\(^{448}\)
- University of Michigan administrators responded to the demands of activists by imposing a campus-wide speech code purporting to restrict all manner of discriminatory speech.\(^{449}\)
- A student at Modesto Junior College was banned from handing out copies of the Constitution—on Constitution Day.\(^{450}\)
- Yale students called for the dismissal of two faculty members for questioning the merits of an e-mail demanding politically correct Halloween costumes.\(^{451}\)
- An Iowa bill would allow students to vote professors off campus.\(^{452}\)
- Rutgers University’s Orwellian Bias Prevention and Education Committee says, “There is no such thing as ‘free’ speech.”\(^{453}\)
- University of Florida students harassed veterans and their working dogs by spitting and urinating on them.\(^{454}\)
- A tenured female professor at Louisiana State University was fired for using profanity. A court ruled it unjust because “using profanity is not sexual harassment.”\(^{455}\)
- In the high school division, a blind kid was getting beaten up until a football player knocked the bully cold. The football player got suspended and kicked off the team. The organs of the brain-dead authorities should be harvested.\(^{456}\)

“Parents dedicate new college safe space in honor of daughter who felt weird in class once”

~Headline in *The Onion*
A poignant vilification was that of Nobel Prize–winning biologist Tim Hunt, who lost his position at University College London (UCL). A couple of misogynist-sounding comments in Korea went viral. The primary attack came from Connie St. Louis, supposedly a science journalist. Soon old Tim was being scorned by University College London authorities, including a member of the diversity committee and a dean. Journalists jumped in fast. The head of the Royal Society and co-recipient of the Nobel Prize, Paul Nurse, denounced him. One defender of women’s rights criticized Hunt because he “whined like a girl” instead of apologized. The irony is killing me.

As it turns out, the comments were jokes (about he and his wife), taken out of context, and clearly left the audience unaware that they were supposed to be offended. The entire story fell apart thanks to dogged pursuit by Natalia Demina and Louise Mensch. Journalists were soon doing mea culpas. Connie St. Louis’s resume also fell apart. The president of an organization in which Ms. St. Louis is an officer resigned when the board of directors refused to investigate her.

Through some of this affair I tried in an insignificant way to support Tim’s defenders and took a swipe at Paul Nurse for thoughtlessly turning on his (former) friend. I found a 70-click YouTube video showing Tim in his element—a very flattering view. It was appreciated by Tim’s wife and has a more clicks now. In a personally surreal passage summarizing the whole sordid affair, Commentary online magazine noted:

>”From the United States, Cornell’s David Collum and NYU’s Nicholas Taleb added their voices, prompting Sir Paul Nurse, the president of the Royal Society, to come out in defense of Hunt and tell the BBC that he should never should have been sacked.”

I cannot speak for Taleb—known as Nassim Taleb of Black Swan fame—but that quotation grotesquely overstates my role. It does, however, remind me why I throw my hat into the ring.

It seems that every mature adult except those defined as college administrators understands the problem. A lecture by Professor Mike Adams is a worthy read. An article on Yale’s fiasco offers a balanced view of why we should let students be “stupid” away from the prying eyes of the news and social media. The insanity of today’s dilemma is not that these young folks ideas are sometimes misguided—all of our ideas needed guidance at that age. It is that society has seen fit to give their ideas unimaginable weight and displayed for all to see on a global forum.

The problem is that this social movement doesn’t stop with examples like these. In an effort to stem a perceived epidemic of sexual violence against women, the Department of Education sent strong messages to universities: deal with accusations of sexual violence aggressively or lose funding. The sentiment is captured by one of our illustrious elected leaders:
“If there’s 10 people that have been accused and under a reasonable likelihood standard maybe one or two did it, seems better to get rid of all 10 people. We’re not talking about depriving them of life or liberty; we’re talking about their transfer to another university.”

~Colorado Representative Jared Polis (D) on campus-based sexual assault

Polis is a complete idiot by any measure and oblivious to the concept of due process. However, university administrators—even well-meaning administrators—are ill-equipped for the task. A few examples illustrate the point:

• A girl confessed by text messages to a guy’s girlfriend that she performed oral sex on him while he was passed out. Amherst booted the guy.469
• Several false claims of sexual assault got the filers charged with felonies. The article notes that college tribunals would never do this, which is a problem.470
• Courts ruled that a student expelled for sexual misconduct at UCSD was not allowed to challenge his accuser’s claims and twice increased sanctions without explanation after the student twice appealed the penalty. The courts crucified the school.471
• A University of Michigan student had sex in which consent was witnessed by her roommate.472 How tasteful. Mom found the daughter’s diary. Charges were filed, and the guy got expelled. The court overturned it. Who was driving that cab?
• In an oddly ironic twist, a University of Miami man is suing for discrimination using Title IX by claiming his accuser “in no way refuted his assertion that he was too trashed.”473
• The poster in Figure 43 has appeared on college campuses:474

Let’s spell this out:

Jake was drunk. Josie was drunk.
Jake and Josie hooked up.
Josie could not consent.
The next day JAKE was charged with RAPE.
A woman who is intoxicated cannot give her legal consent for sex, so proceeding under these circumstances is a crime.
It only takes a single day to ruin your life.
Think about it!
Be responsible.
Women have been the object of abuse since abuse was first invented. It is obvious to all that this is wrong and should be opposed by all rational means. However, according to this poster, *all women leaving bars with a buzz and then having sex are being raped. Really?* The vilification of the male and infantilization of the female under an otherwise fully symmetric situation is breathtaking. The next day Jake would *not* be charged with rape by the courts but would be at risk of being punished by university officials. Did you have sex in college under the influence? Were you a rapist? Did you have unnotarized sex in which no documents were signed, no affidavits witnessed—you just went at it? In the modern era, you are risking more than pregnancy or STDs. If you are a young male, there is no defense against the accusation of misconduct. Even a videotape would not necessarily protect you. Let’s hear from college administrators:

“If the board feels they are only 51% certain that somebody committed an offense, they are not necessarily willing to expel that person permanently.”

~Nicole Eramo, associate dean of students at the University of Virginia, on sexual misconduct
“If it’s more likely than not the infraction happened, the student is found responsible and sanctioned accordingly.”

~Kevin Myers, Reed College spokesperson

Let’s unravel those two nearly identical quotes. Imagine a completely evidence-free “he said-she said” accusation. There is a 50% chance the accused is guilty of the charge—a coin toss. Nudge that to 51% because the alleged victim is slightly more convincing and now the debate is whether to kick you out of school permanently? Let me be unequivocal: that’s nuts. And, by the way, have you UVa folks learned nothing from the Rolling Stone fiasco? (Radley Balko asks and answers why so many prominent cases of sexual assault have gone off the rails.675) The Jake-Josie poster got one part right: a judicial conviction would snuff out Jake’s hopes, dreams, and career aspirations. “Think about it! Be responsible.”

I urged several of our administrators to staff our judicial systems with people “without agendas and possessing the Wisdom of Solomon.” If we don’t, we will need an army of lawyers. We must find the balance. What can you do? An acquaintance got some serious grief for website content that was benign and entirely his graduate students’ creation. After watching the blogs beat him badly, I jumped in and took a stand, decidedly not hiding behind anonymity.653 It seemed to stem the bloodletting. I was not a close friend, just an acquaintance: Where were his friends? In the Tim Hunt case I played a trivial role but got credit nonetheless. I’ll take it. It was a good cause. How about that rape case mentioned above that is all-too familiar to me? The one that got my underwear in a serious bunch? I’m helping a prominent journalist work on a piece that will bring that story to light. The campus culture and society at large has lost its way—they have lost a sense of balance and due process—because potentially reasonable individuals keep their mouths shut out of, yes, cowardice. We need open debates not one sided social movements.

“First they came for the Socialists, and I did not speak out—because I was not a Socialist. Then they came for the Trade Unionists, and I did not speak out—because I was not a Trade Unionist. Then they came for the Jews, and I did not speak out—because I was not a Jew. Then they came for me—and there was no one left to speak for me.”

~Martin Niemöller
Conclusions

“Never cross the streams . . . it would be bad.”

~Egon in Ghost Busters

Several weeks later, in desperate effort to defeat Gozer, Egon told everyone to cross the streams, knowing full well the risks. I think authorities are willingly crossing the streams. Geopolitics is looking increasingly desperate for solutions. The carnage in Europe, although maybe not a black swan in the most explicit sense because it was foreseeable, certainly has come on strong. Did boomers fathom that we would be bombing multiple Middle Eastern countries? Is it even possible that this can end well? It seems that the Arabs have figured out that small, soft targets are easier to hit than twin towers. Can we keep squaring off with the Russians (or Chinese) without a major mishap? The Russians may be less well armed, but they are tough—real tough.

Central bankers are using break-the-glass tactics for the sixth year in a row. Despite their claims to the contrary, they are not omnipotent. The evidence is Spartan that their decidedly human efforts are working toward a collective good. If the Austrian economists prove right, the system must occasionally flush out the excesses and mistakes of the past. Whether via a controlled burn preferred by bankers or a raging inferno, the end result is the same. But isn’t a controlled burn more benign? In a word, no. Did the boom in the 1920s and the unavoidable bust in the 1930s appear to have altered the inherent upward trajectory (Figure 44)? I can’t see it. A grotesquely understated parameter in less spectacular secular bear markets is time. The Dow move nowhere from 1967-81, but inflation silently ravaged savers by 80% over one third of their investing lifetime. Japanese asset prices were devastated over an even more devastating 25 years. Nobody—savers, pensioners, endowments, hedgers—can survive a multi-decade economic malaise and asset drop without suffering profound loss.

Why can’t we grow our way out of this economic mess? It would take quite the optimist to believe that U.S. and global markets (and economies) can replicate the 20th-century wealth creation reflected by the Dow. We witnessed the growth and flourishing of arguably the greatest empire since the Romans. It was a unique period of American exceptionalism. But let’s suppose we did pull this off. Do you think the average money manager—the median Joe—realizes
that the inflation-adjusted compounded return on the 20th-century Dow was only about 1.7% per annum—4–5% if you include dividends? Can the excesses that I’ve tried to document year after year be worked off at that rate before far more Draconian market and geopolitical forces exact their revenge? I don’t think so.

Why can’t the authorities keep intervening our way out of jams in perpetuity? I will repeat a metaphor from Richard Russell: Go into your kid’s room and start stacking blocks. The higher the stack—the more displaced from equilibrium—the more shock sensitive the stack becomes and the more carnage occurs when the stack finally falls. The proximate trigger—some undetectable vibration or waft of air—is irrelevant. We will, of course, cope with whatever comes our way. Humanity always has and always will. But don’t delude yourself into believing you are so smart—so uniquely gifted—that you will stay out of harm’s way and simply watch from safe spaces.

Books

“Books serve to show a man that those original thoughts of his aren’t very new after all.”

~Abraham Lincoln

“So many books, so little time.”

~Frank Zappa

My Amazon wish list is more than 30 pages. I choose my books carefully and achieve some of my reading goals with audiobooks, which make those 12-minute commutes to work and 10-minute trips to the store—trips that would otherwise be against my will—entertaining and educational. Here is my comprehensive 2015 reading list. You will notice themes including finance, history, neuropsychology, and politics.

The Forgotten Depression: 1921: The Crash That Cured Itself by James Grant.
I am a huge James Grant fan: he understands the tangled webs we weave, and he writes like a demon. James describes the deflationary period immediately following the inflationary World War I. The Fed stayed away, and the downturn was severe but short-lived. It is very scholarly. My only concern: Phillips, MacManus, and Nelson in *Banking and the Business Cycle* (1937) make a conflicting claim: the Fed interceded during the 1920s to stem deflation, ultimately setting the stage for the bubble and Great Depression.

http://www.amazon.com/Forgotten-Depression-Crash-Cured-Itself/dp/1451686463/ref=tmm_pap_swatch_0?_encoding=UTF8&qid=1449899454&sr=1-1

*The Dao of Capital: Austrian Investing in a Distorted World* by Mark Spitznagel.
Mark emphasizes the importance of accepting early losses and short-term pain to attain longer-term success in investing. There is a huge and quite warranted emphasis on the role of time as a critical investment parameter. The presentation is very Zen-like with a strong Austrian undercurrent. I would boil it down to one key message: *wait for the fat pitch.* If Mark plays poker, he’s a grinder. Detractors in the Amazon comment section sound like traders who view the daily moves as one big batting machine. I’m with Mark on this one. Patience . . . patience . . . patience . . . and watch Tobin’s Q.

I must confess that I didn’t know too much about either of these 18th-century legends, which allowed me to assess the arguments without prejudging their slant. Paine was always looking to shake the Etch A Sketch to level the playing field but was seriously utopian. Burke was a pragmatic incrementalist—don’t throw out the baby with the bath water, but he was a little too pro-monarchy. Both had their moments (Ali vs. Foreman or Bird vs. Johnson). Burke won in my opinion.

*The Brothers: John Foster Dulles, Allen Dulles, and Their Secret World War* by Stephen Kinzer.
This book was one of the more disturbing books I’ve read. It details the lives of Alan and John Foster Dulles. Initially as head of the CIA and secretary of state, respectively, the Dulles brothers were the first cold warriors. They held incredibly narrow views of the world, largely framed in the simplistic language of good (the democratic west) and evil (communism under the guidance of the Kremlin). They single-handedly did more to inflame cold war thinking than anybody else. The descriptions of sequential overthrows of democratically elected and/or nationalist (but not necessarily communist) leaders reminds me of the book *Overthrow: America’s Century of Regime Change from Hawaii to Iraq*, also by Stephen Kinzer. (Damn. I knew I recognized that name.) History (enlightened by released archival materials from the Kremlin after the fall of the Soviet Empire) has shown that we were the aggressors, and the book shows how much the Dulles boys played a role. As an aside, Eisenhower doesn’t come out looking very good; he signed for a lot of dubious foreign policy moves.

*My Life As a Quant: Reflections on Physics and Finance* by Emmanuel Derman.
Emanuel Derman has been called the “Einstein of Wall Street.” With great humility—shocking humility—he describes his life as a South African graduate student in physics at Columbia, professional physicist at Bell Labs, and high-end code writer—quant—at Goldman Sachs. My respect for the quants has elevated markedly; these guys do amazing things with computers. I was personally most interested his experience at Columbia, which we both agree was very different than my marvelous experience in the chemistry doctoral program a few years later. I think this book is more about science, math, and computer science than Wall Street.


A Random Walk Down Wall Street by Burton G. Malkiel. This is the classic treatise in its 11th edition telling us not to beat the market or even manage our way through it; index the damned thing. If you’ve read this far, you realize I have not done this in more than 15 years. I believe there are seriously protracted periods (like the last 15 years) in which indexing has had issues. That said, the case for indexing the market is excellent. This book is at least partially responsible for making me formulate an exit strategy—to develop a mechanism for re-entering the world of indexing when the next recession strikes. I will become a Boglehead at some point.

Code Red: How to Protect Your Savings From the Coming Crisis by John Mauldin and Jonathan Tepper. These guys put together some thoughtful doom porn. It is a natural follow-up to Bull’s Eye Investing: Targeting Real Returns in a Smoke and Mirrors Market, which is very good. I found it educational and very good at reinforcing my confirmation bias.

Dying of Money by Jens O. Parsson. I thought this was going to be about the Weimar inflation, akin to Ferguson’s When Money Dies by Adam Ferguson. I was prompted by world-class funny bastard @RudyHavenstein to give it a chance. It was largely about the ’70s inflation. The analysis, although at times evading me a little, was very thoughtful and thought-provoking. I highly recommend it.

Debt: The First 5,000 Years by David Graeber. I had mixed emotions. Graeber does an excellent job of discussing early forms of debt through the eyes of an anthropologist. He correctly notes that what are often construed as currencies (carved sticks, tablets, crustacean shells) were actually more symbols of personal contracts (akin to, say, a wedding ring, which is certainly not the currency with which you buy a wife). He refutes the notion that barter economies existed as we often describe them and that debt was always more central. (The indivisibility of cows was not a central issue.) The book is more about indebtedness (obligation) than what we think of as debt. The potential weakness of this book is that it is quite political at times, and I found myself on the other side of the issue with some frequency.
By the time I wrote this I could not begin to remember what it was about. The huge star count and 700+ reviews are highly supportive. I read a few and it reminded me that the message was great: be happy. Above all else, be friggin’ happy. Apparently, I am.

Predictably Irrational — The Hidden Forces That Shape Our Decisions by Dan Ariely.
Dan describes all the forces—many counterproductive—that shape how we make decisions. This is a favorite genre in which we learn how our idiosyncrasies underlie our efforts to be rational. Fans of Ariely would like Robert Cialdini’s Influence: The Psychology of Persuasion.

The Art of Critical Decision Making by Michael Roberto.
This is one of the numerous trimester-length college-level courses offered on CD by the Teaching Company. It is a great analysis of how organizations make decisions and how the protocols and attitudes massively influence the outcome of the decisions. Roberto goes through a host of case studies from Toyota to NASA and the Challenger disaster to consider the subtle machinery used and, more important, critical components missing from the processes.

The Wright Brothers by David McCullough.
For some unknown reason, my expectations were low. This was a great story of how the Wright brothers created their plane and opened the era of aviation. Some stunning aspects of the story include how little attention was paid to them for the first couple of years. Kitty Hawk got no headlines. The story of their exploits took several years to get legs, at which time they were flying figure eights and logging hour-long flights. It is a great story of determination and capitalism. Orville lived to see the sound barrier broken.

Fall of the Pagans and the Origins of Medieval Christianity by Kenneth W. Harl.
I love Roman and other ancient histories, and the Teaching Company does history well. This trimester-length audio course describes life as a pagan in the Roman era. The book was very down-to-earth, including a remarkably frank discussion of how the resurrection was a brilliant way to save Christianity when it was at risk of extinction.

The Sociopath Next Door: The Ruthless Versus the Rest of Us by Shelly Fraser.
I read this book as part of an effort to understand the Clintons and to get a much better grasp on the 4% of the population displaying a dangerous lack of conscience. This book is not deep, but through a series of composites (to protect individuals) created from decades of psychiatric studies, Fraser illustrates that the conscience-free sociopath can fall within the range from a Ted Bundy-esque mass murderer to a shiftless couch potato. Fraser guides us through the traits to watch for as we attempt to avoid these characters, who will, almost without fail, contribute to making your life more miserable.

Clinton Cash: The Untold Story of How and Why Foreign Governments and Businesses
Helped Make Bill and Hillary Rich by Peter Schweizer. Schweizer, the author of This Town: Two Parties and a Funeral—Plus, Plenty of Valet Parking!—in America’s Gilded Capital, an exposé on the insider dealings inside the beltway, must have discovered the magnitude of the Clinton Crime Family and culled it out as a separate book. I hit this pair pretty hard in the text; you owe it to yourself to read up on Hillary and Bill—two career politicians I believe are sociopaths in the clinical sense.

Tower of Basel: The Shadowy History of the Secret Bank that Runs the World by Adam LeBor. The author describes the role of the Bank of International Settlements in the world of politics and banking. The stories are revealing, although at times disgusting. (When the BIS handed Czech gold to the Nazis ‘cause the paperwork was in order, it showed that sociopathy invades entire institutions. I can see non-partisan banking in the abstract, but come on!) I found it very useful as a primer for understanding the cartel of international bankers. This was well worth the effort.

The Other Side of History: Daily Life in the Ancient World by Robert Garland. This trimester-length course from the Teaching Company is great. So much of ancient history is about emperors, kings, and players of prominence. The course looks at what daily life was like for women, men, slaves, and children at the street level in various ancient societies. Spoiler alert: women and slaves didn’t have it particularly good almost without fail, but with nuances worthy of examining. I love this kind of meat-and-potatoes history.

King Arthur: History and Legend by Dorsey Armstrong. I love medieval history—books like A World Lit Only by Fire: The Medieval Mind and the Renaissance – Portrait of an Age by William Manchester. Before this personal renaissance, my views of the era were profoundly distorted. Where the hell did all that mumbo jumbo come from? I now realize it is the repeatedly modified series of fictional treatises referred to as the Arthurian literature. Dorsey Armstrong is a brilliant teacher—she brings her A game—but I really couldn’t stand this course. I’ll take nonfiction over medieval romance filled with Fabio-like characters. I’d skip this one.

Desperate Passage: The Donner Party’s Perilous Journey West by Ethan Rarick. This was an interesting tale of human folly—lots of mistakes were made—in the most legendary journey from east to west over the Sierra Nevada mountain range. It’s not a warm fuzzy story, but I liked it nonetheless. I did, however, take a brief hiatus from it when my Labrador retriever died right as I was reaching the part where the Donner parties (it’s plural) started to eat their dogs. Check out the acknowledgments for how we solved our own moment of sadness. http://www.amazon.com/Desperate-Passage-Donner-Perilous-Journey/dp/0195383311/ref=sr_1_1?ie=UTF8&qid=1449245461&sr=1-1&keywords=desperate+passage

Leviathan: The History of Whaling in America by Eric Jay Dolin. I must confess: this is a repeat from years ago. I grabbed this one at discount with
no expectations. It is a brilliantly illuminating history of whaling in North America, and it explains why New England became what it is today. This should have been a best seller in my opinion.

_The Brain That Changes Itself: Stories of Personal Triumph from the Frontiers of Brain Science_ and _The Brain’s Way of Healing: Remarkable Discoveries and Recoveries from the Frontiers of Neuroplasticity_, both by Norman Doidge.

I’m a total sucker for neuroplasticity, the emerging discipline of neuroscience in which it is becoming increasingly clear that the brain rewrites itself and commandeers underused circuits to compensate for inadequacies elsewhere. Neither book is brilliant, but the topic is amazingly interesting. I have a friend who is kicking himself for not entering this field 40 years ago.

_Ghost Boy: The Miraculous Escape of a Misdiagnosed Boy Trapped Inside His Own Body_ by Martin Pistorius.

This book is also not brilliant, but the topic is a nail-biter. Martin Pistorius (not the double amputee who killed his girlfriend) goes into a coma as a young boy and regains consciousness years later. His body, however, did not rally. His functioning brain was trapped in a body for years without anybody realizing he was cognitively rocking while physically immobilized. A nurse finally suspected he was “in there.” This is the story of his (partial) return, eventually leading to love and marriage. It got tiring, but the haunting realization that other shut-ins like him must exist sticks with me.
Acknowledgments

There are so many people who make the pursuit of the human follies interesting that I cannot begin to thank them all. Those tied to markets that brought a little extra this year certainly must begin with Chris Martenson and Adam Taggart for supporting me in my “Year in Review,” as well as the Tyler Durdens of Zerohedge for further support. Media folks include Erin Aide and Bianca Facchinei of *Russia Today*, longtime friends Jim Kunstler and Bob Lehman for putting me on their podcasts, as well as Eric Hunsader and Joe Saluzzi for joining me on some BTFD.tv podcasts. I also deeply appreciate some personal exchanges that, although not always extensive, meant a lot to me. Of these I must include David Einhorn, Simon Mikhailovic, Andy Huszar, P.J. O’Rourke, Grant Williams, Stephen Roach, Jamison Miller, Porter Stansberry, Tony Greer (below left), and Ron Paul (below center). There is a whole Twittersphere that is filled with amazing characters who bring brains and humor. A few were quoted. Social media can be an oddly personal thing. I profoundly appreciate friends, family, and colleagues who have to put up with my ranting. Last, we lost one of our two Labrador retrievers (Emmy) this year. My advice when that happens: get another ASAP. Meet Maisey (bottom right).