THE MISERY MONGERS*

"Those who do not remember the past are condemned to repeat it."
George Santayana (1863-1952)

I wrote this in October of 2002:

> "Not knowing what they think or believe in, many market participants continue searching for that last, defining piece of information instead of stepping back and asking themselves what really matters."

I am often guilty. I collect information. My goal, however, is to sort it into crude piles. They have various labels: Useful, Silly, Wrong, New Insight, etc.

I excuse myself for placing importance on information because I at least try to sort it out, weave it into a pattern. History, you know, is often poorly recalled so a bit of data helps.

The topics for this June Quarterly include information "analysis" and were, in part, triggered by a note from Ray, a long-time great friend. He is curious about recent information pitches suggesting yet again, pending doom. "Why and what is this *&^%," he asked?

He drew my attention to a particular advertisement the tone of which was along these lines:

"AMERICA TO GO BANKRUPT IN OCTOBER"

"DOLLAR TO BE WORTHLESS"

After an extensive and dramatic description of the results (widespread riots, mass starvation, collapse of the government, etc.) the authors were kind enough to offer, for a fee, this:

"HOW TO PROFIT FROM THE COMING COLLAPSE"

and this

"WHAT TO BUY NOW!"

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I also see some of these diatribes and hear of many others. Some of the writers even have what I would call a decent prior reputation in related areas, but now faded. They seem to feel shock value beats logic to move back into the limelight. They have been part of my work experience for decades. Common to them all is a few urban myths, a very few facts and conclusions that boggle the mind. The logic is near always circular – dive in wherever. Many intelligent people pick up on the few facts, miss the first premise and are troubled enough by the conclusion to, well, freeze. They act, but rarely does that work out.

Back at the start of the Great Recession, for example, the fear mongers used the now debunked bankruptcy of Lehman Brothers and the potential failure of some banks (Citi, Bank of America, etc.) to spin a doomsday scenario that kept many from benefitting from a collapsed stock market.

The linkage between an actual event, Lehman forced to close, and a potential event, social collapse, relied heavily on investor ignorance. Those who preached, "Buy Treasury Bills, they mature sooner," for example, provided a sure path to a loss or much smaller return, at best, over the near-decade that followed.

I take nothing away from the times – they were a life-defining event to many, costing jobs, homes and, in many cases, irrevocable heartbreak. The times were also temporary as were an endless number of meltdowns, panics, depressions and the like since the dawn of recorded history. Much changed, much stayed the same.

How do we, and I include myself at times, not only get caught up in the mania of the moment, but also react so contrary to common sense, so contrary to history?

Sometimes simple ignorance – do absolutely nothing – saves us. Sometimes a few cautionary steps are sufficient. It seems, though, that the "fight or flight" decision our lizard brain subconsciously makes pushes the "flight" button far too often. Someone is always willing to mong a rumor, quote a relative who "knows" or support, by his or her own poor decisions, equally poor decisions in those they talk with. This, then, becomes the final, defining piece of information and its value, its power, is directly related to how frightened or confused the listener is. Until it changes with a new input.

I wrote of people not knowing what they think or believe. It suggests laziness, frankly. It seems to me that if you had anything worth preserving, you'd dig and dig everywhere for input. That said, I guess it's fair to say if that means talking only to all the folks you regularly hang with, you may miss the obvious sample bias of that singular crowd.

The point here, then, is that if you intend to dig and do the homework, then read history, talk to many people with experience, not just those repeating the last

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thing they heard. Oh, and ask yourself how they benefit from giving you advice. Note that it's not always monetary. In my trust division years I saw many people take bad advice from others they admired – not for their experience or knowledge, but because the advice giver believed their own poor analysis so firmly that they sounded right.

But I once again digress. What of these claims?

I am always surprised by folks who report the declining value of the dollar – how it's now worth 12 cents or some such number compared to 30 or 40 cents a few years ago. I want to remind them that the dollar has no value and has not had any value since Nixon took us off the gold standard in 1971. The dollar is a fiat instrument – it is worth what we say it's worth, not what it is backed by or convertible into or represents. Let's put to rest the collapse of that feature of the dollar: It has no intrinsic value. It has one overriding purpose that keeps it viable – you can only pay your taxes with it. Taxes, I needn't point out, are the lifeblood of the nation.

I suspect the point the panic-meisters are trying to make is that the dollar won't be accepted in global transactions at some immediate date, will be seen as worthless. Yes, a leap. The steps needed for this country to get to that point are extensive and beyond the scope of this small work. If there were a substitute (the yen, or a bundle of many currencies) it would have occurred by now. Simply put, there is no substitute large enough, backed by a solvent nation controlled by rule of law and contract that can replace it. So no intrinsic value, poorly managed . . . and the only game in town.

I know this attitude or conclusion eats at many of you and I await your critique.

Now, bankruptcy. Defined as assets less than liabilities and demonstrated by an inability to acquire credit to continue functioning, bankrupt also implies ultimate sale of any remaining assets and failure to pay off debt at face value . . . see Greece, as a current an example of all of this. Countries go bankrupt, refinance and march on – I have written enough about that. Corporations go bankrupt and generally disappear.

The fear mongers focus on the last bit – a failure to pay off the debt and thus a de facto bankruptcy. Usually they point to our trillions in debt as a proof statement that we cannot, ever, pay it back to the lenders.

I have written many times of the difference between what we as a nation owe – the total of all outstanding government Bills, Notes and Bonds and the much larger total of what we promised – Medicare, Social Security, government pensions, et al. The latter can, and likely will be reduced by the same folks that made the promise – and some may well be simply repudiated. Do not confuse

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our inability to make good on all the promises with our ability to pay back our government debt. As a nation, our assets far exceed liabilities.

What is far more troubling to me is the proclivity some have to institute investment decisions based on events such as those suggested above – huge, disastrous events, before they are even a potential. Put another way, we institute solutions before the problem is upon us. The extreme case is the "go all to cash" view while the other extreme is the "buy a little of everything." In the former, you see no return; in the latter you see both positive and negative returns that effectively wash out to near zero. It is possible to diversify away any potential return.

This is the critical juncture. This is the point where investors must know what they believe, what congregation they belong to. The long view, right or wrong, cannot totally change weekly. If you believe investing in stocks, for example, to benefit over time from America's growth or if you believe America is a failed state, you had best also believe you cannot switch back and forth and expect to come out ahead. The markets will pick your bones clean while you try to get ahead of pros that lay in wait for you to implement your "new" information.

Of course, you will harvest gains or raise or lower cash at various times. Your core belief, though, has to be in place so that changes at the margin are more for your psychic well being than a strategic shift; more tactical, if you would, than strategic . . . and even that is heavily debated.

You might also note that history, as they say, may not rhyme but has a way of repeating. Very few investors step back and try to see the long-term lessons of history – the history of societies, nations, economies and rulers.

Every event-scarred adult knows the great healer is time. I have written often that the backbone of this nation, American consumers, needed time to repair their fiscal house. Excess debt from poor decisions a decade ago, lack of attention to maintaining savings, limited efforts to improve job skills, over dependency on government programs of all flavors – each of these ills needed to be acknowledged, however painfully, and dealt with.

Government attempts to force healing made no sense to me – lessons needed to be learned and poor decisions resolved. These consumer mistakes, however, in only a limited way altered or slowed the long-term trend of this nation.

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We are in recovery mode, moving to 2017. Consumers are, in fact, healthier. I was asked how I came up with my view of more normal times arriving in 2017. It's simply, really. I saw in numerous prior economic cycles a 7- to 10-year full-cycle time frame. Judging this one to be as severe a recession not called a depression, I concluded it would favor the longer recovery time of 10 years.

As I sat and began to write this *Economic Outlook*, I felt the Outlook needed not so much specificity as overview and direction. I have written before about the human way of dealing with conflict and confusion, about the foolishness of men (and now women) in government administration, about policy and political conflicts, about venal politicians and their decisions to solve our problems. Often their social solutions were rich with precise detail. I am reminded of John von Neumann, father of game theory and his one-line critique of precise detail in expected results " . . . there is no sense being precise when you don't even know what you're talking about." Bear that in mind when you see the apocalyptic newsletters. Those political decisions, by the way, were only focused on some perceived immediate problem, which we all required they "address." We needed to feel "something" was being done. Well, something was done and the law of unintended consequences surfaces yet again . . . as we shall see in years to come.

The vacuum created by no tangible results, it seems to me, created fertile ground for the misery mongers. What better conclusion? Bad times and nothing works immediately, ergo the world is in trouble. You can even do that one backwards – the world is in trouble because nothing is working so more bad times.

Things will be generally better when Italian Bond yields far exceed U. S. Treasury yields, as they will again when risks are normalized. Things will be better when rates rise. Things will be better when growth is nurtured again. Things will be different. Things will be better.

Time. Time and a belief system. Time and self-control. I'll continue to bet on man's innate desire to improve his lot.

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*monger: old English: *mangere*, Latin; *mango*
A dealer in tricked-out wares, or device for deceiving; to disseminate or promote in a way often regarded as self-serving, deceptive.

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