Anti-Leverage: A Theoretical Masterpiece

By The Mogambo Guru

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As the economy is slowing, I am more desperate for cash than usual, and so I am making another pathetic, emergency bid for a Nobel Prize, and that lovely million bucks that comes with it. Not to mention, of course, the income from the CD I've been fantasizing about recording, "Nobel Prize Winner Yodels Songs From ZZ Top!" which I consider an annuity, you know, in case I actually do live through this whole thing without my brain exploding.

From a scientific standpoint, I will admit that it is not the most elegant methodological paradigm that I ever heard of, but it works for me. And if you want to send me a few bucks, you know, to sort of tide me over until this whole Nobel Prize thing gets worked out, that would be swell, too.

Anyway, my startling and ground-breaking theoretical insight came to me as I was recently applying large amounts of cash to a mortally wounded asset, the latest example of an asset going to Asset Heaven, in this case the air conditioner. Before that it was the brakes on my wife's car. And before that it was the lawnmower. And the month before it was the washing machine, and then there was the increase in health insurance premiums, and before that it was something else, yada yada yada. Every freaking month it's something. And then last night the smoke detector started beeping that it needs a new 9V battery. So like I said, it is always something.

Nobel Prize in Economics: Have Assets, Replace Assets

But as I was trying to control the involuntary shaking of my hand as I reluctantly made out the check, it occurred to me, suddenly, in a revelatory moment that I liken to the apple falling on Newton's head, that if I didn't have all these assets, see, I wouldn't be spending this huge chunk of money on maintaining them or replacing them. But – and this is the crux of the matter – there was no money in the damn accumulated depreciation account, because, like the other spend-o-holic financial managers of the last decade, I did not actually set aside any cash, and now I have to use the woefully short stack of money that is listed on the books as "Petty Cash Account – Sex, Drugs and Rock and Roll" to plug the sudden income-expense gap. Ginger and Barbie, down at Stud-Land, which bills itself as America's Lap-Dancing and Cheap Porno Emporium, are not going to be happy about THAT.

Then, extrapolating in a simple-minded, linear fashion like I am forced to do because it is a symptom of that undefined something that is tragically wrong with me, I realize that when I have more assets, this increases my total costs when I add in maintenance and depreciation. Bad enough. But if I compound my misery by borrowing money to buy the asset in the first place, then I am exercising – and here is another of my arsenal of potential Nobel Prize gems – "anti-leverage." The reason I have not submitted this "anti- leverage" theoretical masterpiece, this Mogambo gem of genius, to the Nobel Prize people is that 1) I just now made it up and 2) I have no idea what the hell it means. But it just seems so, I dunno, pregnant with potential somehow. It sounded right as it sprang – pop! – out of my mouth, and if you are like me, then if it sounds right, then by golly it must BE right!

Getting back to the point, expenses are rising but income does not go up as much, and now if I have to borrow the money to buy the new asset, which makes the original problem of "more assets and linearly more maintenance and depreciation expense," into one of "more assets and compoundingly more maintenance and depreciation expense," then there is some multiplier effect.

Yow!

Nobel Prize in Economics: The Mogambo Millstone

An excited twitter goes through the crowd. It's that compounding of cost thing that is the big theoretical breakthrough. Famous economists, even dead ones who now sit bolt upright in their graves at the revelation, slap themselves on the forehead, and say, "Of course! It is so obvious now! Thank you, Mogambo! Praises to Mogambo!"

I hope to call it the 2M, which stands for the Mogambo Millstone. I chose the word "millstone" because it began with an M, like Mogambo, and it just so happens, what a lucky break for me, that a millstone is a huge rock that is so damn big that it is used to crush cereal grains into powder. But this is the shortened, popular version. The full title, as it will appear in the textbooks, will be "The Mogambo Millstone Around The Neck Of You Debt-Addled Proletariat Jackasses For Whom It Will Feel Like A Freaking Millstone When You Start Swimming In Debt That Has Finally Risen Over Your Head And That Heavy Weight Drags Your Worthless Butt To The Bottom Of The Ocean of Debt And Drowns Your Sorry Ass Because There Is No Freaking Way In Hell That You Can Swim With a Millstone Around Your Scrawny Neck, You Ignorant Bastard You."

And then – and this is the part that I think will swing it for me with the Nobel Prize people – I make the leap to the concept of government as an asset, and one whose maintenance costs make it also so, so, so, it is hard to think with your enthusiastic applause still ringing in my ear, subject to an exponentially approaching natural limit.

As a corollary, this wonderful new theory of economics also concerns us because the acquisition of a permanent asset, or more particularly the maintenance and inevitable depreciation of the asset, namely government, itself directs and controls FUTURE spending. Namely, and please ignore how I give my explanation though gritted teeth and a kind of seething hostility, the installation of an air conditioner ten years ago has led directly to me here, ten years later, to deposit a big freaking chunk of my money into the accounts of guys who sell air conditioners today.

This is how the mere owning of an asset directs future income streams to itself, especially as concerns government.

Because, believe me, if I did not have to, I would not be writing those guys a check. I would instead, in the little dream-world I call Richard Land, be taking that large sum of money out of an over-worked ATM in some loud, smoky, alcohol-besotted, sleazy and deliciously decadent strip joint, with which to bestow on bevies of scantily clad beauties, even though I am not sure how many is actually IN a "bevy," but it has to be more than one, meaning two or more, and then you could always weave in a little of that girl-girl action that seems to sell tickets. As an aside, I don't know why I call it Richard Land, anyway, because in that fabulous place everybody knows me as "Hunka Hunka Burning Love," especially Wanda-Sue, the transvestite hooker with the golden heart, who steals the show.

Nobel Prize in Economics: A Natural Limit to Assets

"Therefore, ipso facto," I say, and grabbing a piece of chalk, I suddenly wheel around and scribble furiously on the blackboard as I emphatically expound, "So there is a natural limit, L, to how many assets, A, you can manage on a given income, Y, and there is a corresponding lesser limit, L-max, when you borrow the money, M, for the asset, which, as we have previously seen, was A, and is still A. And if the asset, A, is financed at rate I, for time T, then the total cost, TC, goes non-linear, there is a shift at the intersection with the applied exponential multiplier, and with a few arrows, thus, a few dashed lines, thus, and a few regular lines all gloriously curving and criss-crossing multivariate graphs in the defined n- space, I am finished! Behold!" I imperiously throw down the chalk. I step back. I turn. I await your roar of approval. Applause applause applause! I close my notes, I bow slightly at the waist, and bask in your boisterous acclamation. As Mr. Nobel himself presents me with the bouquet of roses and the diamond tiara, whose twinkling diadems are shamed by the iridescent twinkling of my blue eyes, I say, with tears of joy cascading down my cheeks, "Thank you! Thank you! Thank you all so very much! When do I get the money?"

Later, at the press conference, I notice that the beautiful reporter in the mini-skirt, the bright red lipstick and ankle-strap high-heels has a question. "The answer to the question that our readers want to know," she asks in that charming and slow-as-molasses Southern-drawl that invokes sultry images of Lauren Bacall at her sultriest best, "how can we make a bunch of lovely," and here she pauses to slowly, agonizingly slowly, lick her lips provocatively, "lovely money on this? Because we are hot, so insatiably hot, sweating and moaning in our unquenchable lust and lascivious cravings, for making sweet, luscious money."

Naturally, I am enthralled and delighted to see that at least one stinking newspaper in this whole stinking town will sink far enough into the proverbial gutter to pander to my petty, adolescent weaknesses in such a blatant way. Glancing around the room to see if my wife is in attendance, or anybody that may know my wife, and not finding either, I smile broadly and say, "If you are wondering how to make a profit on the inevitable, my dear," and here is where I pause to lick my own lips provocatively, but am secretly displeased with the gagging response invoked in the rest of the crowd, I continue, "then you ought to turn your money over to someone to manage for you, and I would be happy to talk to you about it. Later. In my room."

I thought to myself, "If this beautiful piece of fluff is so stupid that she cannot figure out how to make a profit on the inevitable, then this could be a lot of fun!" But apparently she was not as stupid as she sounded, since not only did she never show up, but now I have yet other restraining orders lodged against me, not only by her, but by all the rest of the people who were in the room, who were so disgusted by my behavior that they are all demanding that I never be allowed to lick my lips like that again, at any time, anywhere within fifty miles of them or their families, and everybody is now laughing at me behind my back, and I think that my wife is on the phone with that damned temptress reporter right now, who is ratting me out with her lies. Damn.

Anyway, how to make money on the inevitable? Jeez! I get so tired of this question that I am currently soliciting bids on some tattoo work, so I can have, permanently written on my forehead, the words "Buy gold, you freaking moron!" and then I would not have to say anything at all, which would be a big productivity-booster. I could write this Mogambo drivel with one hand, and with the other hand, at the same time, point to my own forehead in answer to that perennial question, "So tell me, you egghead doofus; how can I make some money by investing?" And since productivity-boosting is so dear to the heart of Alan Greenspan, and if you know him, then I would appreciate it if you would tell him I'd be happy to enlighten him to this ground-breaking productivity-through-tattoo thing, and while I have him on the phone I can tell him how every thing that he is doing is wrong, because I am sure he really, really wants to know what I think, even though he never calls me and he won't answer my calls when I call him anymore, and he has that same snotty receptionist tell me that he is not at home, and I say that I KNOW he is not at home, and that is why I am calling him at work at his freaking office at the freaking Federal Reserve, where YOU are working, you irritating worthless skank, so let me talk to Alan pronto, or I'll come down there and strangle the whole lot of you, and then she says "No" and hangs up on me. Man, I hate dealing with the government. They are so rude!

But, on the bright side, I have told you why we are doomed, I likened the economy of the USA to air conditioners, and I have told you how to make some money on the inevitable. Now, all I have to do is get that tattoo on my forehead and wait for Alan Greenspan to call. Or the Nobel Prize people to call. Whichever one comes first.

My hand is on the phone, and I am waiting for it to ring.

Sincerely,

The Mogambo Guru
for The Daily Reckoning
June 23, 2003

P.S. I am still predicting, in the next few weeks, the huge downdraft in the stock market as predicted by the Fabulous Mogambo Indicator, a mutant forecasting device that I stumbled upon when trying to cross the DNA of financial apples with that of economic oranges in the light of a full moon, during an electrical storm. This little Frankenstein of an indicator seemed to be prescient both times it ever appeared before, especially if you hold the graph at a little angle like this.

And yes, I still think that gold is going to shine, no pun intended, but I thought of it being a pun before I actually wrote it, but wrote it anyway, so maybe the pun IS intended.

Mogambo Sez: As an economist, it is the most amazing time to be alive.