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Corporate Earnings Go Cliff Diving

by The Mogambo Guru

"I run to the tables in Barron's, and I see that the earnings of the S&P500 - the 500 biggest corporations in the country - went down again last week to $46.10 from $51.37, a drop of about 10%!"

The news just keeps getting worse, and I note with dismay that the latest report of initial claims for unemployment are 516,000 - well past the psychologically-important half-million mark - personal bankruptcies averaged "4,936 per business day in October" - which is up 8% from September and 34% more than October 2007 - business sales are down a couple of percent, factory shipments are down a couple of percent - which may explain why electric power is down about one percent - and all kinds of stuff are down, except, of course, the damned government payrolls.

Even retail sales are down 2.8% from September, and down a whopping 4.1% in the last 12 months. And as bad as that 4% drop is, Anthony M. Cherniawski of The Practical Investor newsletter notes that it is worse than it appears, as "these prices are not adjusted for price changes in the past year", and if you look at the year-over-year 4.9% inflation statistic from the Department of Labor, as he did, then "That means retail sales, adjusted for inflation, are down 7.6%" in the last 12 months! Gaaahhh!

If people aren't buying stuff, then this may have something to do with what I saw at Chartoftheday.com. They write, "It has been said that earnings drive the market. That may be so, but it has been the ongoing financial crisis that has driven earnings - off a cliff."

And since, when examining my whole life, I can be characterized as "a paranoid, xenophobic, penny-pinching little tightwad, armed-and-dangerous gold-bug bastard going off the deep end again", I am particularly attuned to other things that are "going off a cliff." So I run to the tables in Barron's, and I see that the earnings of the S&P500 - the 500 biggest corporations in the country - went down again last week to $46.10 from $51.37, a drop of about 10%! And $46.10 is a long, long, LONG way down from the $84.92 they made last year! Earnings have been cut almost in half! Wow!

And looking even more long-term, earnings of the S&P500 are back to where they were in 2000! Hahaha!

Naturally, being a scared and paranoid-yet-disagreeable little man who grows more so with every tick of the clock, I was trying to think of something clever to write that would convey both my Utter Mogambo Contempt (UMC) at anyone who thought that investing in the stock market over the long term was a good idea, and my Utter, Utter Mogambo Contempt (UUMC) at anyone who thought that placing all their retirement eggs in the stock market was a good idea.

This, of course, leads me to how the monstrous Alan Greenspan, while chairman of the abomination known as the Federal Reserve, irresponsibly created all the money and credit that allowed such rampant inflation in the prices of assets, so much so and for so long that it made such "invest for the long-term" idiocy actually seem possible; and then that naturally leads me to how Greenspan could not have done it without the despicable educational system graduating students who rank at the bottom of the world, the despicable news media for their gullibility and ignorance, and the despicable Congress in general (and Sen. Christopher Dodd and Rep. Barney Frank in particular) for being so stupid, incompetent and worthless as to allow the Federal Reserve to commit such monetary villainy, which naturally leads me to how even all these execrable halfwits, together, could not have done it if the damnable Supreme Court had not bizarrely ruled that FDR was allowed to corrupt the dollar by substituting a fiat currency instead of the strictures of the Constitution's Article 1, Section 10 that mandated that only "gold and silver coin" will be money.

Then, predictably overwhelmed by the enormity of such supreme stupidity and total failure, I am soon angry and outraged, again yelling, "Damn them! Damn them all!", shouting out revolutionary slogans and ranting, "To the bunkers! We're freaking doomed, you morons!"

It was not until later that I learned that Chartoftheday.com also had a comment about the idea of "investing for the long-term" using these earnings numbers as a springboard, but which was a lot more calm, more nuanced, and classy, even though I could feel the marrow congeal in your bones when I read, "Altogether not a historically high number considering that it is merely 19% greater than where earnings were back in 1966."

But I suppose it all proves, for the umpteenth time in history, that you cannot achieve prosperity by printing money, as James Grant, of Grant's Interest Rate Observer makes perfectly clear in his article at online.wsj.com when he writes, "partly because there was no external check on monetary expansion, debt grew much faster than the income with which to service it. Since 1983, debt has expanded by 8.9% a year, GDP by 5.9%. The disparity in growth rates may not look like much, but it generated a powerful result over time. Over the 25 years, total debt - private and public, financial and non-financial - has risen by $45.1 trillion, GDP by only $10.9 trillion."

And now total debt is north of 350% of GDP, the highest ever, and with a federal government putting us on the hook for another accrued $95 trillion or so in promised future benefits for which they will cause the necessary money to be created, then if that is not a Damned Good Reason (DGR) reason to buy gold, then nothing is! Whee! This investing stuff is easy!