Dead Before You Break Even

By The Mogambo Guru

07/02/09 Tampa Bay, Florida One of the headlines that I saw was that people are saving again, and are reportedly stocking away about 5% of their income, which I find astonishing and probably the biggest lie anyone ever told since I said those immortal words, "Kids? Sure! Let's have some kids! I love kids!"

For awhile, I thought that I was the only guy in the world who could not believe that people are somehow saving so much money, and I was going to use this fact as an excuse to go to a bar and get really plastered since I obviously have no idea what in the hell is going on.

However, as I am heading towards the door, I see where Rob Parenteau of The Richebächer Letter writes, "Oddly, along with flat consumer spending, the gross personal saving rate has surged to nearly 7%, yet the unemployment rate has kept climbing. How is that combination possible? Specifically, where is the household sector getting the income growth to both increase saving and stabilize spending levels when job cuts remain alarmingly high?"

Well, the answer may be that they aren't buying anything at all! I came to this startling conclusion from an email from Junior Mogambo Ranger (JMR) Diane S., who sent a spreadsheet that she said was "taken off the S&P website" at www2.standardandpoors.com that shows that the actual 12/31/08 "As reported earnings per share" for the S&P500 index is a startling loss of $23.25! Yow!

It takes a moment to sink in that the earnings of all 500 of the companies in the S&P500 index, the 500 biggest corporations in America, are negative, which, of course, makes the price-to-earnings ratio a negative number, which has the bizarre result of the P/E ratio now being the amount of money you will spend for a share of the S&P500 to buy a loss of $23.25! Hahahaha!

Then I thought to myself, "Hold on there, Mogambo! Maybe with all the drugs people can get or make these days, maybe there is enough brain damage extant in the world to make this work!"

Excitedly, and hastily, I left work, jumping into my car and speeding to the mall, radio blaring, whereupon I started offering people in the parking lot the latest Hot Mogambo Investment Idea (HMIA), which is, "Give me a dollar and I will give you a 23 cent loss!" which I quickly learned was a failure of a business venture, so I went inside and got some egg rolls from the food court and went back to work.

Pondering what went wrong, I see that maybe there is literally no money to invest in my HMIA, as JMR Diane S. notes, "they really buried it, but the estimated 'As Reported' P/E for the S&P500 is 1920 this quarter! For next quarter it's a negative number, -436!! That's beyond infinity!!!"

Her three exclamation point punctuation that really got my attention! This must be huge!

Intrigued, I took another look at the table in Barron's, and I see that the P/E ratio for the S&P 500 is now an astounding 127.45, which is already so outlandish that I get the odd sensation that I am in some kind of dream world, a place where morons somehow get wads of cash and decide to spend it on an asset whose earnings are so low that it would bizarrely take 127 years to break even on buying the stock, and when the average lifespan of the average investor is less than 80% of that, which is such a weird, disorienting concept that it takes me Over The Freaking Line (OTFL) when it is all compounded by noting that the companies in the index are paying out $21.69 in dividends while only making $7.21 in earnings!! Gaaahhh!

So if you are one of those people who currently own the S&P500 and you are saying to yourself, "Yow! These guys are bankrupt! I gotta get out of stocks, and into something else! But what?" then let me tell you that all the other people in the last 4,500 years who came to this place in their lives either bought gold (and fared very well), or they did not (and did very badly, mostly starving to death in the streets and dying of exposure while the cries of their hungry children were ringing in their ears).

In short, "Whee! This investing stuff is easy!"