Neo-Keynesians Draw Laughter from Surrounding Planets

By The Mogambo Guru

03/06/09 Tampa Bay, Florida The bad news is that the National Association of REALTORS announced that existing-home sales plunged 5.3% in January, and that, even more worrisome, 45% of the houses sold were of "distressed properties."

As for prices, the Standard & Poor's/Case-Shiller home price index reports the ugly news that the price of single family homes dropped 18.5% in December, as compared to this same time last year.

Bill Buckler of the-privateer.com must have seen my eyebrows shoot up and almost touch my receding hairline, which is more painful that you would think, and he notes that "Between 1990 and 2007, total mortgage debt held by Americans rose from $US 2.5 trillion to $US 10.5 trillion. That alone is a $US 8 trillion credit surge."

If it were me writing that, I would have continued, "That $8 trillion in personal debt, amassed over a mere 17 years, is borrowing over half of GDP! Half of everything this country makes and sells in a year! We're freaking doomed, and it's all because we are so damned stupid (audience shouts out 'How stupid, Exalted Mogambo Personage (EMP)?') that we continually elected the morons who borrowed and spent the money that created the booms in stocks, bonds, houses and size of government, and who allowed the Federal Reserve to create the excess money and credit that was used to pay for the booms, all based on some stupid equation-laden, econometric neo-Keynesian imbecility that is so stupid that (trust me on this one!) creatures from every other planet in this sector of the galaxy are laughing at us! Hahaha! Just like that!"

Mr. Buckler is too intelligent to get into a discussion with me about extra-terrestrial creatures and what they laugh about, and offers instead that "The Global Spill-Over" of all that money and credit is "that surge, and others like it, spilled over the rest of the world. US imports exploded upwards as new, additional US Dollars surged out – and imports from the rest of the world surged in."

This "money surging in", I note, is thanks to foreigners investing in productive capacity to make the stuff they sold us, which is now sitting idle ever since the supreme stupidity of an American "services economy" has been exposed as just another foul, flagrant fraud.

Even so, American GDP (which is laughably composed primarily of trading financial assets and government deficit-spending) only fell at an annual rate of 6.2% in the fourth quarter, which is worse than the 3.8% drop that the lying government first reported, but which is a lot better than overseas, where economies are contracting at terrifying rates!

This may be why David Stevenson at MoneyWeek.com writes that in Britain, “life assurers are now factoring in corporate bond defaults hitting post-Great Depression levels – the peak was in 1935.”

Worse yet, Mr. Stevenson says, “this may not be gloomy enough” and quotes David Wighton pointing out, “The market thinks it’s going to be even worse. Bond prices currently assume that as many as two in every 100 top-rated companies will fail to make their debt repayments, far higher than after the 1929 crash” which Mr. Stevenson interprets as, “In other words, the market is now reckoning that 2% of the best businesses will effectively go bust.”

Two percent of the “top-rated” companies failing is, I guess, the good news, although it doesn’t tell what percentage of “less-than-the-best businesses” will fail, which is a category in which I am keenly interested, as I have apparently driven my own company into that very category with my incompetence, if you believe the biased opinion of a bunch of lying accountants who hate my guts and who are always tattling on me to my boss.

Mr. Wighton does not care to comment on my personal troubles, but he does give me a hint of what is to become of me when he says, “As for the riskier companies, Moody’s reckons that nearly 20% of all European ‘speculative grade’ companies will fold in 2009.” One out of five will fail! I’m doomed!

Back at home, Agora Financial’s 5-Minute Forecast notes that “the Dow is just a few points from a 12 year low” which is pretty bad, but Bob Woods of Kaizen Managed Assets goes father back than that and reports that “The Dow began the last century at 66. It peaked in October of 2007 at about 14,300. It is now under 7,100” which he says means that “it took 107 years for the Dow to rise to over 14,000, and 16 months to give half of those gains away!”

And when you adjust those nominal gains/losses in inflation-adjusted terms, it is much, much worse, proving, once again, that since the majority of investors must lose money so that the minority of investors can make money, and since sometimes you are with the majority (and thus lose money) while at other times you are with the minority (and thus make money), net-net-net everybody loses money in both real and inflation-adjusted terms in the Stupid Stock Market (SSM).

And so why do I always yammer, yammer, yammer at you to “buy gold”? Gold started the last century at about $20 an ounce! Ponder this and be instructed, as I have done, and you, too, will happily say, “Whee! This investing stuff is easy!”