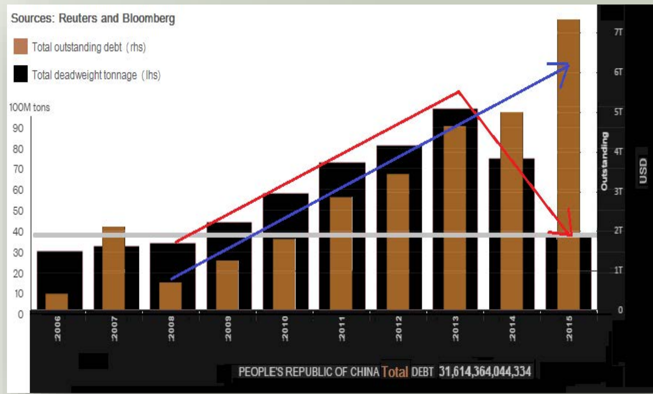
IT'S BEEN "GROUNDHOG DECADE" SINCE 1971



CONTEXT:

By September 2008, when clients begun calling or writing almost daily, to request guidance on how to navigate the ongoing crisis, I had spent over two years explaining why, for instance:

- *commodities would rise for the upcoming 5 to 10 years (March 2006)*
- *housing sector would continue crumbling for years (December 2006)*
- *US treasuries to protect against the then, upcoming recession (April 2007)*
- *equities were performing their typical "Sucker's Rally" (May 9, 2007) and (May 26 2007)*
- *structured instruments (CDO, CDO2, etc.) were toxic waste (June 2007)*

NOTE: Everything I wrote between July 2007 and July 2013 got erased from our Venezuelan server in June 2014, when we decided to close our Caracas broker-dealer and move operations to the US. Yet, I am particularly proud of a note in Q1 2008, arguing that unsustainable levels of leverage among investment banks (30:1 on average) and especially, shadow banks (some as high as 50:1) put the global financial system at risk.

Oswaldo Lairet
CIO SISTEMIC RISK AVERSE FUNDS

Oswaldo Lairet
@olairet

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JUST AS IT HAPPENED BACK THEN...

Dozens of charts proving why the new bull market was just a M2-Propped-Up Zombie of the 2007-2008 market carcass, didn't draw attention until "the horse [got] out of the barn" this year. Yet, as readers ponder on what to do next, consider that financial markets may be trapped in a "Groundhog Decade."

After 1971, western economies begun to noticeably influence the price of money (interest rates) and currency issuance, as evidenced by 40 years of extreme boom-bust business cycles. Yet, as central planners became fixated on swaying the financial sector in one direction or another, Western Capitalism begun turning into a globally centralized economy. For instance, through guaranteeing home financing and fiscal incentives to ownership, central planners inflated real estate prices and with them, the price of the entire economy. However, rather than creating value, financial distortions caused asset-price bubbles whose busts, planners begun fighting since the 80s by cutting rates persistently. Yet, by 2008 the sheer size of the global economic bubble, made it burst beyond recovery. Ever since, we have been living what is probably the last of the interest-rate-induced NPV bubbles.

Financial intervention allows central planners to set in motion illusions of persistently increasing prices, thus attracting the collective interest and with it, rising waves of new financing from economic agents, until price distortions become unsustainable. Yet, since up to a decade can pass, before a price correction arrives, central planners achieve colossal wealth transfers (in the form of net present value) from the population at large and their descendants to the benefit of their current political or private interest.

Upon the above, rather than suggesting do's or dont's in this environment, it may be more productive to review what methods exist to assess the true state of the economy. One way is to use physical trackers*, rather than asset-price statistics propelled by bogus interest rates. For instance, the chart above confirms a crucial conflict between the exponential amount of total debt China issued from 2006 to 2015 (+$30T) and its declining imports. Among others, this chart reveals four significant inferences:

1. China has been facing a precipitous decline in purchasing power since 2013 (red line)
2. China's excess-growth imports (black columns) in tons over the 2006, 2007 & 2008 average was obviously financed by a 1,000% increase in outstanding total debt since 2008 (golden columns)
3. in 2015, even as China increased total debt issuance (blue line) to the highest historical level, it couldn't prevent import purchases from tumbling back to their pre-2008 level (gray line)
4. China's $3T+ international reserves are only 10% of its outstanding debt and a fraction of the monetary system. Meaning, the Yuan is at least 10 times (1,000%) overvalued

*For instance, tonnage to analyze exports, imports, cargo, etc. BTU or Watts to follow energy activity. Mileage to analyze transports, etc.