Peeling Onions Sept 21, 2011

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Have you ever peeled some onions for a dish you were making? Did you have a burning sensation, which brought tears from your eyes? Like peeling onions, we are watching events today that have, and will set up millions for that "burning sensation" with their financial capital, and why there is a desire to avoid peeling back any more layers of the onion.

This article is the first in a series on peeling back layers of false concepts in our minds that millions of investors have been indoctrinated to believe since the 1980s. Since these ideas allow us to explain our world in a much more controlled fashion, they allow us to live in our own bubble world that has developed throughout our lives, rather than asking the question, "Are we facing something that is drastically different from the events of the last 30 years?" If this question is answered in the affirmative, then taking time off the trend mill is a must for all of us right now, not a year from now, or two years from now, but right now. If the answers is a flat out "no", then read no further, since it will appear as though I the writer, am living in a scary world that does not exist.

The Question

The first question I would like to poise may appear trite and ridiculous to ask. However, when we remember that less than 2 months ago the entire global group of investors read, "S&P Downgrades Debt Rating of U.S. for the First Time" and today read articles like "Lenders press Greek to shrink State and Avoid Default", one has to be extremely naïve to dismiss these events as nothing more than the random events of history, and as such, of no importance when considering one's own personal or business financial goals and desires.

So here is the question. If an individual looks at the events of the last few years, has the record revealed a forum where "all are treated equal" and the gatekeepers of the game have sought to "place the client first", or more of a Darwinian survival of the fittest? In looking back at other periods in financial market history, what can be learned?

The Response

In Dr. Jared Diamond's work, Collapse: How Societies Choose to Fail or Succeed, Diamond reveals a side of the markets that is rarely discussed with retail investors, and yet in my opinion, should be a foundational principle of placing one's funds in any investment strategy.

> "Many of the reasons for such a [societal] failure fall under the heading of what economists and other social scientists term, 'rational behavior'; arising from clashes of interest between people. That is, some people may reason correctly that they can advance their own interests by behaviors harmful to other people. Scientists term such behavior 'rational' precisely because it employs correct reasoning, even though it may be morally reprehensible." [pg 427]

Today, Mr. Bernanke, certainly one of the most prominent financial figures in the world, will release his royal edict to tell the public what Ponzi scheme of debt he and his cohorts at the most lucrative private bank in the world, the Federal Reserve, has in store for our latest "rescue" from a crisis. If one were to look at the financial markets, we can easily see that the crowd has certainly been lead to believe that whatever he says today, will be extremely beneficial for market participants based on how markets *have rallied* since the August FOMC meeting, which took place on August 9th, the day US equity markets bottomed. Have financial markets rallied purely on the expectation of yet another "rescue"? Have traders and managers grown so addictive to the Federal Reserve's "unlimited debt to the rescue" policies that many are ignoring these warning signs, or are they staying in their current hot potato trade as long as possible before FOMC comments are released at 2:15 EST? Is it possible that we could be watching yet one more episode of a Darwinian game of survival of the fittest?

We only need examine the history of one of the most famous banking empires of the last 200 years, to find that market timing, while dismissed in much of the financial advisory world over the last generation, was seen as tremendously valuable by the Rothschild financial dynasty. The following account of a market high in the 1820s is told in [The House of Rothschild]() by Niall Ferguson, Professor of History at Harvard:

> "It was at this point [July 1817] that Nathan began to sell, realizing profits of more than £250,000. Interestingly, this was five months ahead of the market's final peak at 84.25 in December 1917, and this may explain why he delayed slightly before relaying the advice to sell to others. Even his brothers-in-law and his oldest client in the market, the Elector of Hesse-Kassel, were not tipped off until after Nathan had sold. As it became apparent that the market had indeed peaked – by 1820 prices were back below 70 – Moses Montefiore hailed his brother-in-law's coup.

> 'I am very happy to learn you make as good a Bear as you formerly did a Bull....You have beaten your antagonists so frequently that I am surprised there are any so hardy to be found in the Stock Exchange to oppose you in any considerable operation.'" [pg 118]

If we leap forward almost 100 years, we learn that this same behavior was also seen in the American banking giants. The following account was taken from Dr. Carroll Quigley's 1300 page work, published in 1966, Tragedy and Hope: A History of the World in Our Time. Quigley was a professor of history at Georgetown, and had taught at Princeton and Harvard.

> "The influence of these business leaders was so great that the Morgan and Rockefeller groups acting together, or even Morgan acting alone could have wrecked the economic system of the country merely by throwing securities on the stock market for sale, and having precipitated a stock market panic, could then have bought back the securities they had sold at a lower price. Naturally, they were not so foolish as to do this, although Morgan came very close to it in precipitating the 'panic of 1907', but they did not hesitate to wreck individual corporations, at the expense of the holders of common stocks, by driving them to bankruptcy." [pg 72]

He then gives the following cases from history to make his point:

> "In this way, to take only two examples, Morgan wrecked the New York, New Haven, and Hartford Railroad before 1914 by selling to it, at high prices, the largely valueless securities of myriad New England steamship and trolley lines; and William Rockefeller and his friends wrecked the Chicago, Milwaukee, St. Paul, and Pacific Railroad before 1925 by selling to it, at excessive prices, plans to electrify to the Pacific, copper, electricity, and a worthless branch railroad (the Gary Line)." [pg 72-73]

Now I asked you, when one examines headlines from the last few years, has anything really changed in the rules of the game? How long will the myth that central bankers are somehow like financial gods, always trying their best to "rescue" us from the latest crisis, continue to be the leading idea in the public's eye? How many more bailouts from central banks to their global banking stockholders will it take before the public wakes up and peels back this layer of blindness over their eyes, and understands that morality in financial markets is defined as whatever it takes to win?

How Goldman Profited from Subprime Meltdown, MSN, Dec 17, 2007

Goldman Sachs Has First Perfect Quarter with Zero Trading Loss, Bloomberg, May 10, 2010
JP Morgan Joins Bank of America in Perfect Record for First-Quarter Trading, Bloomberg, May 6, 2011

My Hope for Less of a Tragedy

As financial destruction brings millions of investors and advisors to the point that they can no longer live on myths and ideals that they have taken for granted, always comforted that "more liquidity" (i.e. the euphemism for more debt) would always be there to make there investments rise, need only consider these words spoken by Chairman Bernanke in a speech in Rhode Island during October 2010, a time when everyone was focused on QEII, or "more debt is coming":

> "To be sure, projections are to some degree only hypothetical exercises. Almost by definition, unsustainable trajectories of deficits and debts will never actually transpire, because *creditors would never be willing to lend to a country in which the fiscal debt relative to the national income is rising without limit.* Herbert Stein, a wise economist, once said, "*If something cannot go on forever, it will stop*." One way or the other, fiscal adjustments sufficient to stabilize the federal budget will certainly occur at some point. The only real question is whether these adjustments will take place through a careful and deliberative process that weighs priorities and gives people plenty of time to adjust to changes in government programs or tax policies, or whether the needed fiscal adjustments will be a rapid and painful response to a looming or actual fiscal crisis." (italics mine)

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