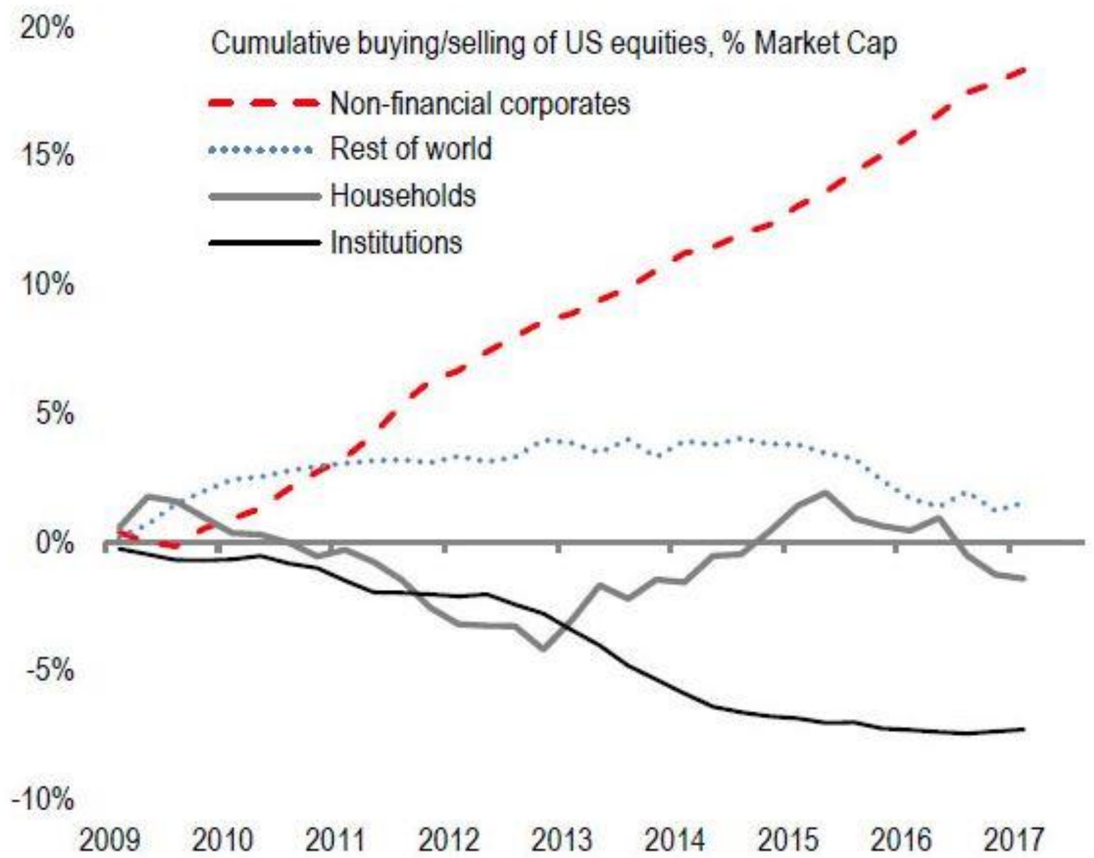
2017 Has Been A Tough Year For Ebearnezer Scrooge & Don Peters Blog
Don's Blog 2018.01.16

Has the U.S. economy changed to such an extent over the last 20 or so years that the old historical benchmarks we have used to measure value are no longer viable? Obviously, all we who have insisted that markets were overvalued have needed to look at our hole card. Believe me, we have looked again and again. We do know that the supply of public companies has declined some 50%. Does that then mean we have more money chasing fewer stocks? Yes, it does. We do know that profit margins are at all-time highs. Does this mean that they are higher permanently because of the changes in service vs. manufacturing economies? Yes, I think it does. However, is it really permanent? Don't higher profit margins attract new capital? Isn't that the capitalistic system? After answering those questions as best we can, I have to admit that capital has benefited more than labor due to changing times. However, this creates another potentially severe problem. That being the old saw of the rich getting richer and the poor getting poorer. Social unrest is made of such things, as we have mentioned many previous times.

As this is being written, the Dow Jones has passed the 26,000 level, up more than 200 points. This came after a prior pre-opening press release that GE was taking a $6.2 billion charge in the fourth quarter just completed. In addition, it was reported earlier that GE will have to set aside $15 billion over the next seven years. We have always considered GE to be the face of American enterprise. There is hardly a company anywhere that has its fingers in more different businesses. Could this be the prime example of the changing profile of our economy? Is GE old news? The oldest and only original Dow Jones company still in existence—is it taking its place in the junk yard? Or is it some handwriting on the wall? My guess is we might see several other companies also finding it necessary to take charge-offs. After all, tax rates are going down in 2018. Also, their management of earnings during 2017 may have been too rosy. It may be a reflection of rosy operating earnings versus the GAAP accounting caper that infects the investment community.

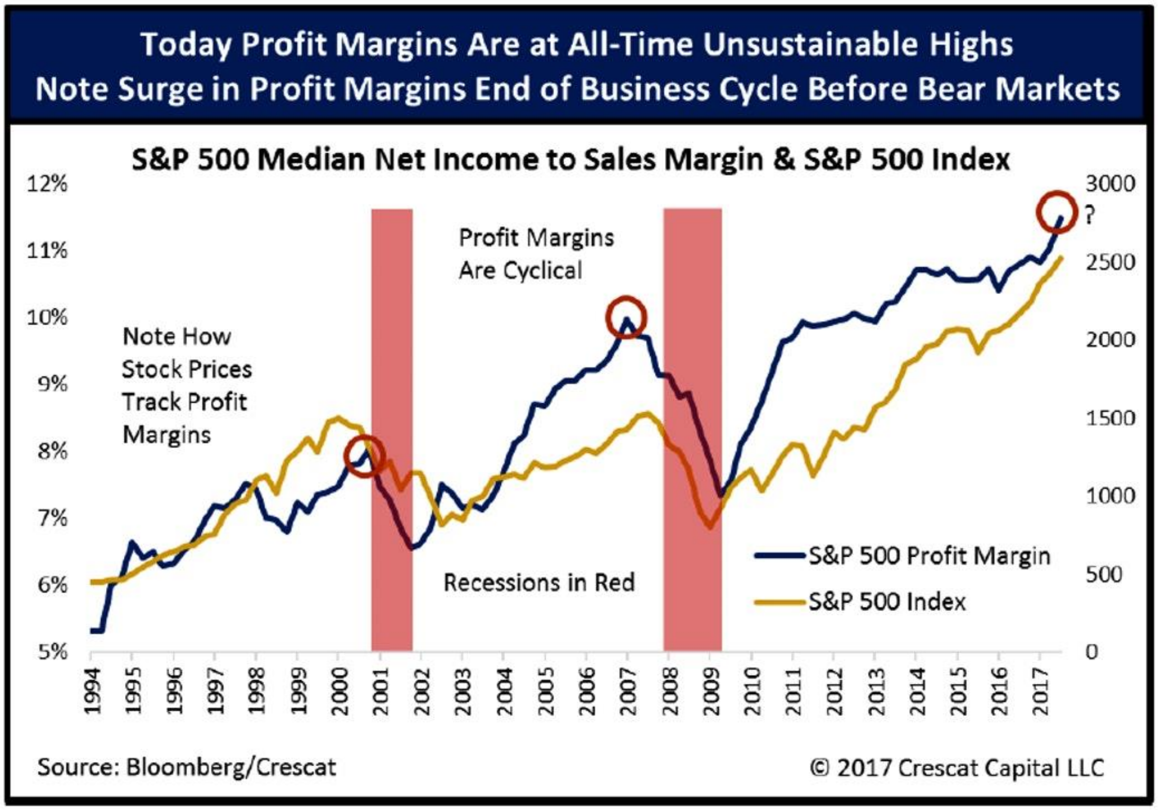
Graphs to Consider

Figure 63: The corporate sector has been the main buyer of US equities since the market low

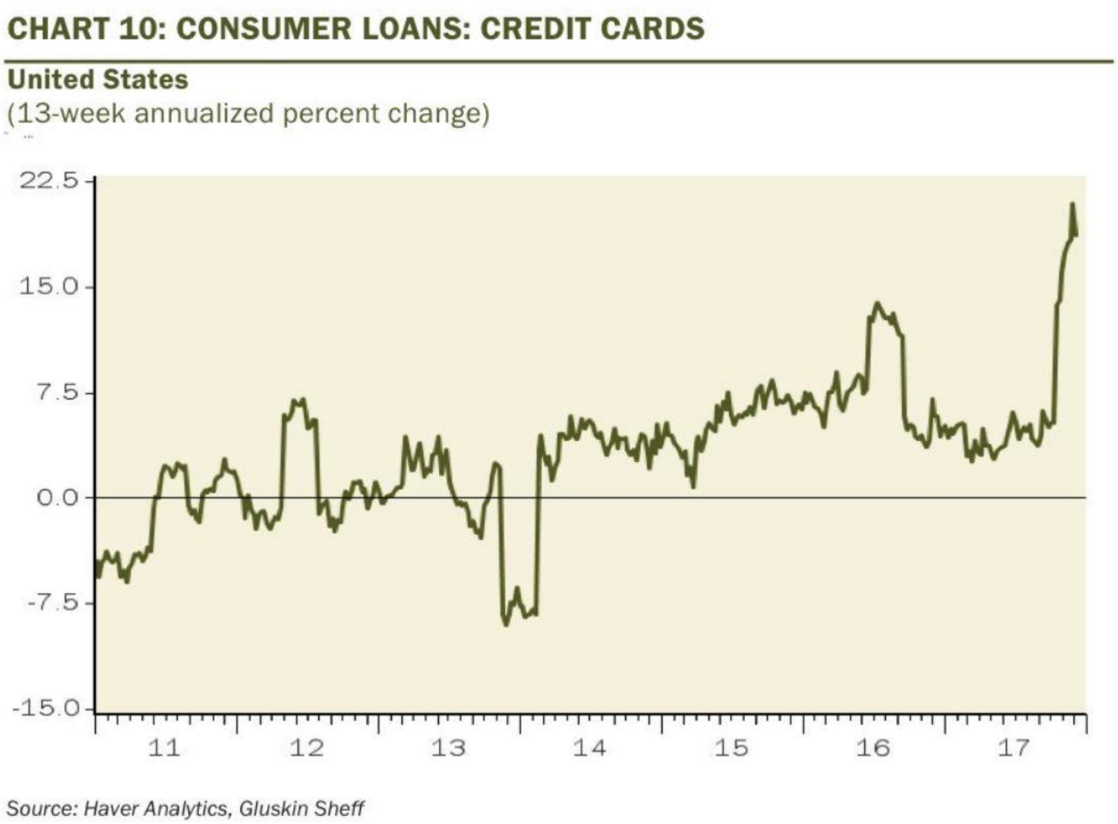


Source: Thomson Reuters, Credit Suisse

Not only are the number of public companies also lower than 20 years ago, but the number of shares of those remaining.



Note the profit margin upward tilt over the years. Are they topping out?



Note the source of Christmas sales. Is this sustainable?