THIS AND THAT AND OTHER THINGS
DON'S BLOG 2017.11.08

Can you believe that only seven new FDIC insured commercial banks have been chartered in the U.S. since 2009? Only two over the last six years? Do you remember when we visited about the lack of net new companies of all kinds being formed? We have even had a few years lately in which more small businesses closed than started. The first years since WWII! We all know that most new employment comes from startup companies, therefore one of the reasons we have 95 million people out of the labor force. And the number increases each year. Analysis I have seen indicates only 60% of those leaving the labor force are for retirement purposes. Please note charts 1 & 2 below.

Of course, there are many reasons for this, but one of the greatest is federal regulations. One has only to read the Dodd-Frank Act, which only the multibillion-dollar banks can afford to see the reason why. In "protecting the little guy," they have benefited the big. It's another example of Wall Street and D.C. giving help that hinders. Although not being one who has strong opinions, I would like to quote an excerpt from an article found on the website of mises.org, "while the left enjoys evoking income equality as an excuse for ever more elaborate government programs, the uncomfortable reality is that few presidencies have ever done more to widen the gap between the rich and poor than Barack Obama. Of course, the progressives have always been Wall Street's greatest allies." May I add that applies to George Bush also. We have a bunch to overcome!

We have now had two quarters in a row of 3% real GDP growth. The Trumpsters are taking credit for it, which is just so much baloney. You know, of course, how I feel about GDP as a measure of growth. I guess it's the best we have, but if one takes into account how much is in inventory building and debt driven, it's not too much to write home about. But it is positive, and that's good. Most all of we who remain convinced that the stock market is in a serious bubble keep trying to figure out just what would send it south. I have as yet no answer, but continue to read and research. I thought the following chart depicting prior fairly recent bubbles might be of interest (note chart 3 below).

The following is from Eric Peters, chief investment officer of One River Corp, which sums up well my opinions on financial markets:

> "Why are we not experiencing deflation?" he asked. "How can the top five stocks in the Nasdaq reduce US GDP but we feel better off?" he asked. "Why are Americans buying no more cars today than in 1978 when our population is 100mm higher?" he asked. "Why compare today to a world of combustion engines when we have so many more interesting things to do without moving an inch?" he asked.
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> "And why do central banks create endless bubbles to restore an inflation rate from that ancient time?" he asked. "Why is that not the right question?"
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> "Global profits are rising, unemployment is falling, growth is up, wages too," said the strategist.
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> "Yet bond yields seem unable to jump." US 10yr bond yields are 2.27%, Germany 0.40%, Japan 0.05%. "The cyclical surprise is that the Phillips curve finally kicks in, just as everyone gives in." US unemployment is 4.2%, a 17yr low. Germany 3.6%, a 37yr low. Japan 2.8%, a 23yr low. "And the biggest structural surprise is that technology has rendered wage inflation a phenomenon for the history books."
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> "But if we don't see a sustained cyclical jump in wages, then yields won't go up. And if yields don't go up, then the asset price ascent will accelerate," continued the strategist. "Which will lead us into a 2018 that looks like what we had expected out of 2017; a war against inequality, a battle for Main Street at the expense of Wall Street, an Occupy Silicon Valley movement."
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> He paused, flipping through his calendar. "Then you'll have this nightmare for the next Federal Reserve chief, because they'll have to pop a bubble."
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> -Adapted from Zero Hedge

On another manner, note the recent pictorial change in the Federal Reserve head (chart 4). Shorter and shorter seems to have caused interest rates to go lower and lower, but is this about to change? My thought is yes on the short-end, but no on the long. However, later on—no on the short and yes on the long. Change is the only thing that is constant.

Chart 1

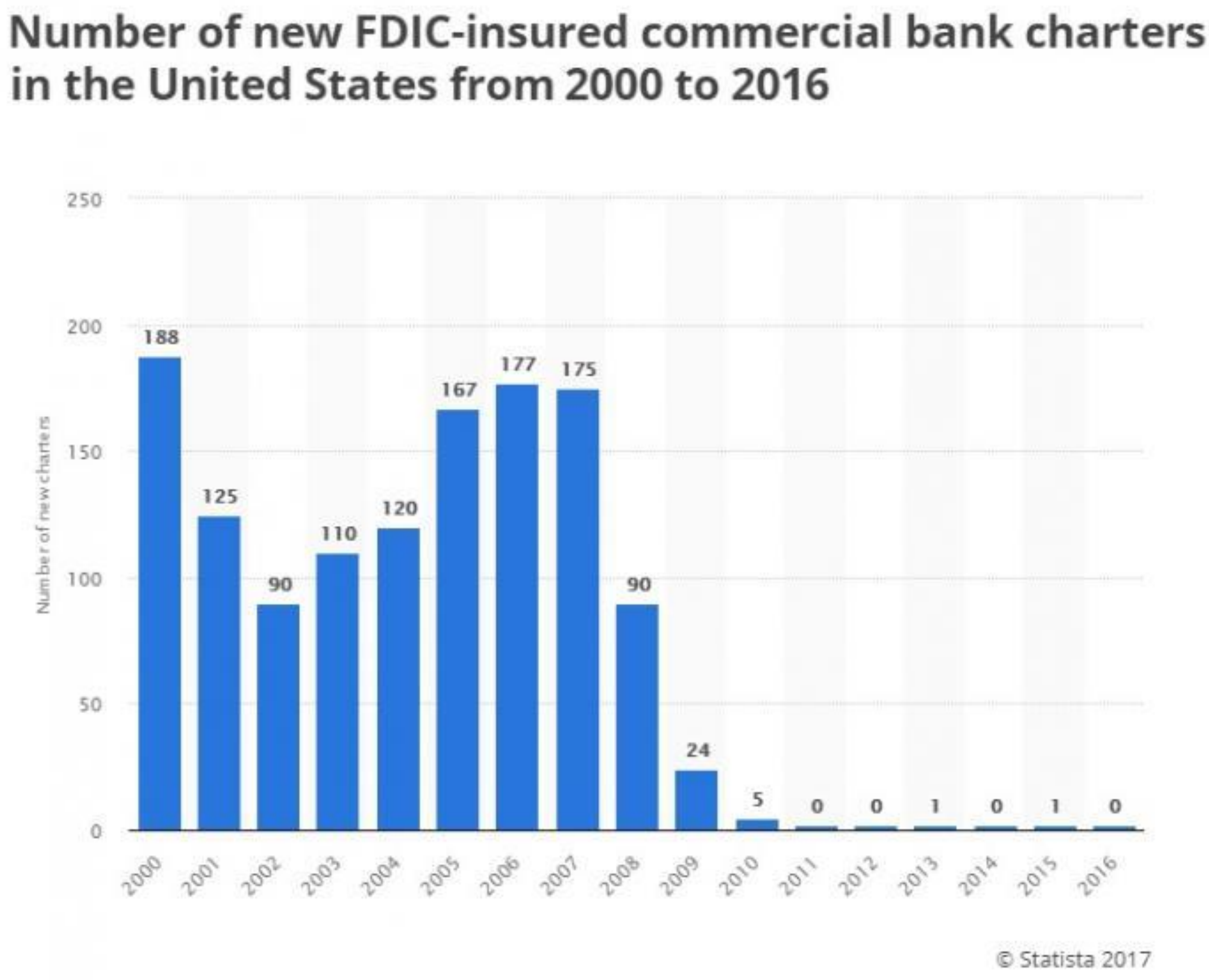
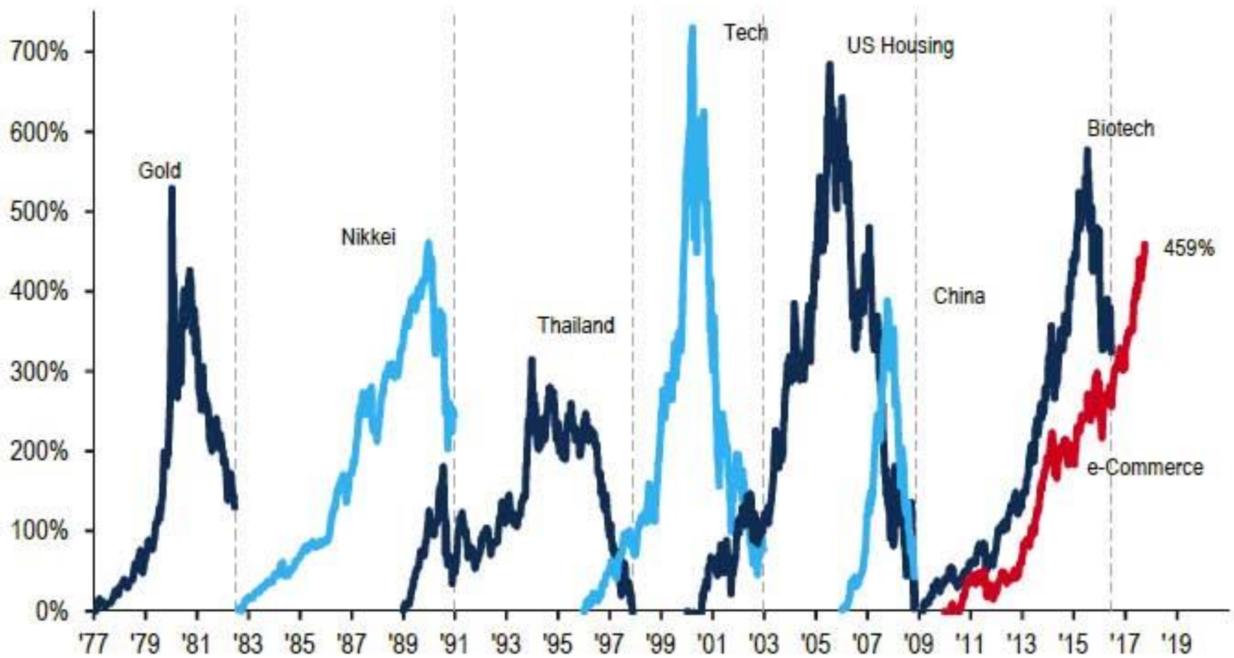


Chart 2

Chart 3

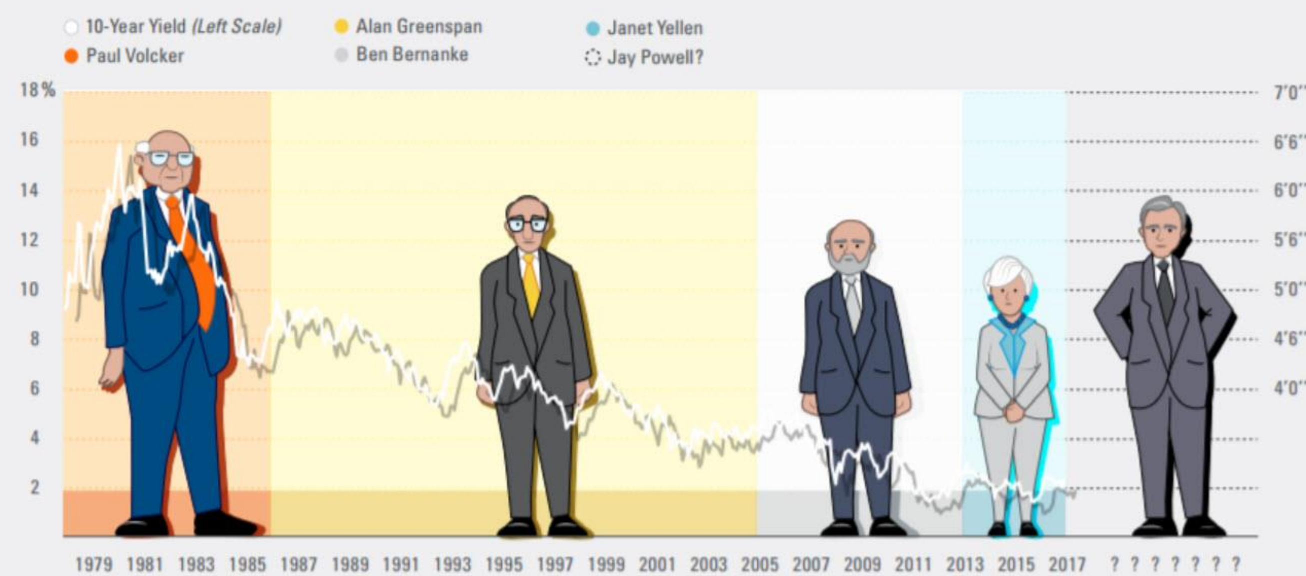
Chart 7: Bubble Trouble



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg; Note: Gold (XAU Curncy), Japanese Equities (NKY Index), Thai Equities (SET Index), Tech (NDX Index), US Housing (S5HOME Index), Commodities (SHCOMP Index), Biotech (NBI Index),e-Commerce (DJECOM Index)

Chart 4

2 **BOTH THE HEIGHT OF THE FED CHAIR AND RATES HAVE FALLEN OVER TIME, COULD A TALLER FED CHAIR MEAN RATES RISE?**



Source: LPL Research, Bloomberg 10/22/17

We don't actually believe that interest rates are determined by the height of the Fed chair, but it has been an interesting coincidence.