FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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The Forgotten Shareholder

Corporations would not exist without the scarce capital that stock investors not only provide, but place at risk of total loss, since they get whatever is left over after everyone else (employees, the government, creditors, suppliers, etc.) has been paid. After investors provide the initial capital, the company has to encourage them to continue to hold their shares. Otherwise, the company might go bankrupt (in which case the bondholders would become the new owners and management may well lose their job), or the company's cost of capital would soar, making it cost prohibitive to access the debt or equity markets. Traditionally, the primary method that corporations have used to keep shareholders around and happy is to pay them generous (and preferably increasing) dividends.

I've told you before about the over one hundred CEOs of major corporations who signed the August 2019 statement issued by The Business Roundtable that sought to redefine the purpose of a corporation, from the traditional "to maximize value for shareholders" to a list of five purposes that doesn't even mention shareholders until #5. To see management not only de facto seize control of corporations from the shareholders but to do so in such a public, blatant way was shocking.

Then last year, panic and hysteria over COVID-19 dramatically and permanently altered the business landscape, crippling profitability, bankrupting over 100,000 small businesses, and thrusting nearly all remaining businesses into severe financial distress. Other than the tens of millions of workers who lost their jobs, shareholders bore the brunt of this national economic suicide, via lower stock prices and dividends. Many corporations cut their dividends (usually to zero), including a number that had increased their dividend every year for at least a decade, sometimes for several decades. Most of these companies probably had to do so in order to survive, but I suspect some of them used the crisis as an excuse to get off the treadmill of serving their shareholders. But if most investors are buying index funds, they're going to (indirectly) buy a company's stock no matter what its management does. Because markets are efficient, right?

In recent decades, business schools and groups like the Aspen Institute (see a list of its donors to understand what it does) have been training/guilting corporate executives to run their businesses more like a charity, essentially converting them into non-profits, which of course comes directly out of the shareholder's pocket.

Since 2009, corporations have also quietly gorged on low-cost debt to a record degree (thank you, Fed!), which will either have to be paid off or refinanced one day at then-prevailing interest rates. Leverage magnifies the gains and losses that shareholders receive. When you live by the sword, you die by the sword.

Thanks to trillions of dollars printed by the Fed and investors desperate to earn a return after over a decade of artificially low interest rates, stock prices have come roaring back, driving dividend yields (which were already low due to slashed dividends) even lower. Today we have capitalism without capital (the savings provided by equity investors). Now the Fed provides all of the necessary "capital." What a wonderful world!

Of the over 1,500 stocks I track, there are now only about 30 U.S. corporations that (1) have increased their dividends for at least 15 years in a row and (2) yield over about 2%, and (3) did not sign the Business Roundtable statement.

Corporations could only get away with such neglect and abuse of their shareholders at the end of a long, artificially inflated bull market. At some point, corporations will need to attract shareholders again. Usually this happens during a financial crisis, when some companies need to sell more shares just to stay afloat. The problem is that during the next financial crisis, it will be more difficult to earn a profit due to high taxes and regulations, record corporate debt levels at a time of rising interest rates, a tapped out consumer, and a political *zeitgeist* of "equity" and "inclusiveness." (Today, ironically, as it relates to the investment world, "equity" means transferring some or most of a corporation's free cash flow that belongs to equity owners to groups of people who had nothing to do with earning it. That's an "equitable" outcome.)

Then there's the problem of high inflation. Even if a corporation was able to earn a profit and was willing to pay dividends, by the time shareholders received them, inflation would have eroded much of their value.

I think that the next time corporations desperately need shareholders—as they did during the financial crisis of 2008—investors will take one look at that financial/political sh*tshow and say, “Nah, I'm good with my food and metals (precious and non-precious).” And Atlas will shrug.

What You Should Be Doing Now

Books to read: The Deep Rig: How Election Fraud Cost Donald J. Trump the White House, By a Man Who Did Not Vote For Him, by Patrick Byrne. As a lifelong political scientist, I wanted a better understanding of what happened during the last election before the information got sent down the Memory Hole and it became a political crime to ask questions about it. If enough massive (and blatant) fraud did in fact occur in a handful of states to throw a presidential election and shift the balance of power in Congress, then our republic/civilization and the rule of law are over, which has important implications for your wealth, safety, health and liberties.

Byrne is the former CEO of Overstock.com and a longtime Libertarian, so like me, he's not a Trump fanboy. After the election, he led a group of volunteer computer geeks who spent a couple of months looking into allegations of voter fraud. He ended up working closely with former General Mike Flynn (a lifelong Democrat) and Sidney Powell, and met with Trump once or twice.

The first third of the book is full of reproduced documents that either didn't seem interesting or were too small to read. (The book contains a lot of hyperlinks to videos and such, which of course don't work in the printed book, so you might want to get the ebook version if you want to explore those.) I thought the book was going to be a bust, then I came to the story of Rudy Giuliani (who Trump had selected to lead the investigations and appeals), some shady and incompetent characters in that organization, shenanigans and dirty deeds at local elections offices, and the White House and Republican Party officials who seemed intent on getting Trump to go away.

It seems that Rudy was drinking or drunk much of the time, yet he somehow managed to have enough free time to continue doing his daily podcast. He refused to consider (or even listen to) any strategy other than his own, which was to claim, for example, that a hundred dead people had voted in Philadelphia and to see what the courts would do about that (generally, courts do not want to get involved with election disputes). Byrne begged Trump to replace Rudy with someone more competent, but Trump refused.

There was a surreal scene in the White House where Byrne, Flynn and Powell were able to sneak in uninvited and unannounced and meet with Trump. They had found legal justification (through executive orders signed by Obama and Trump) that Trump could have used to audit the election results in the handful of states where voting fraud allegedly occurred. Trump's own White House counsel and his two deputies objected to everything, at one point even screaming at Trump and storming out of the Oval Office. It was like Caesar being surrounded by several Brutuses, blatantly holding long knives.

Byrne says that Trump was mentally sharp (though not a reader and kept in the dark by some of his own staff), personable and gracious. However, his personnel decisions (including Rudy) were terrible, which I find ironic for someone who had a long running TV show that seemed centered on hiring and firing people. Trump (who before he became president, had never spent a night in D.C.) promised to drain The Swamp, but in the end, The Swamp drained him (by wasting his time and energy on false allegations and bogus investigations).

Look, voting fraud has probably been going on since the birth of democracy. And ever since I saw the documentary "Black Box Voting" a decade or more ago, I've known that modern elections that use electronic voting machines are like airport security--they're theater. But now the stakes are simply too high to allow some populist rube who's not a member of the ruling class to occupy the White House. There's too much money to be made and too much power to be wielded. There's a reason why seven of the ten wealthiest counties in the U.S. are in the Washington, D.C. area, and it's not because they have a lot of entrepreneurs who have found ways to serve their fellow man.

In the months ahead, I plan to start studying the fall of ancient Rome and other complex societies. Because it's over, my friend.

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I would love to hear from you! I thrive on feedback from readers. If you have any comments, suggestions, insight/wisdom, or you'd like to share a link to a great article, please email me.

Generally, I don't have time to answer questions about your specific situation, but if you have a general question that I think other readers also have, let me know and I will provide an answer in a future issue.

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