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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Bullshit Detectors

For many years now, I've told people that "My bullshit detector is at a permanent maximum setting, because both Wall Street and Washington D.C. have strong financial incentives to want you to believe that things are better than they actually are." Company founders, corporate executives, brokerage firms that underwrite new issues and investment companies looking to cash in on investor demand by giving the people what they want all need an excited, gullible mark to which they can sell their richly valued shares.

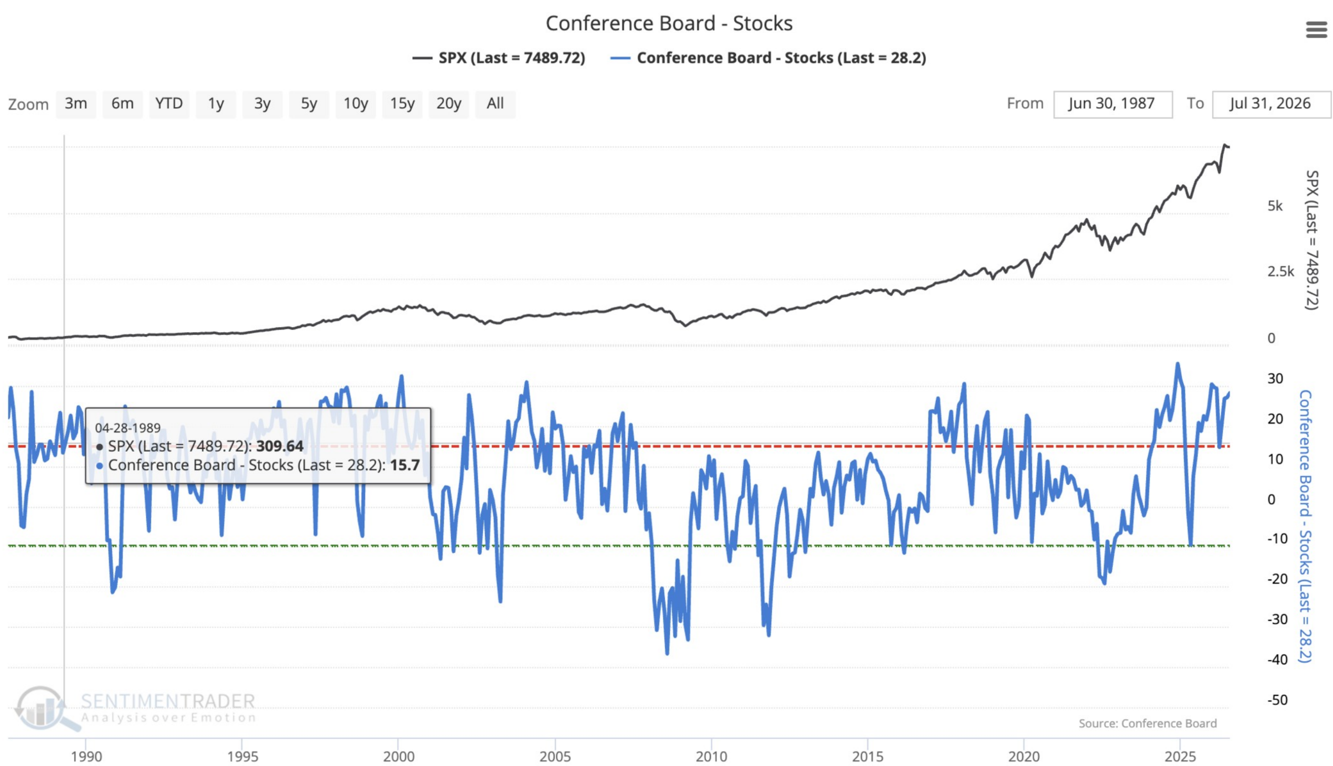
Hungry for ad revenue, the financial media eagerly parrots the stories of these people, which attracts more eyeballs as more people watch coverage of the inevitable boom and subsequent bust.

Politicians also want you to believe that things are better than they actually are so they can get reelected and continue their logrolling, junkets and general whoring around. Fortunately for them, reporters in the Legacy Media practically compete with each other to produce emotionally compelling but factually misleading vignettes, gaslight the American people and silence anyone who asks questions.

How many politicians would get reelected if the American people knew that the real inflation rate is about 12%, the real unemployment rate is about 25%, the U.S. dollar has lost about 97% of its value since the creation of the so-called Federal Reserve Bank, and the present value of unfunded liabilities facing the federal government is about $88 to $100 trillion?

Given the cheerleading by the financial media and the underwriting brokerage firms, Americans' general dearth of knowledge about history and economics, and the lack of critical thinking in today's society, it's already more important than ever to pause, think for yourself and beware of the crowd.

Now let's layer in the current *zeitgeist*. A measure of the public's net sentiment towards stocks (bulls minus bears) is among the highest readings since at least 1988 (see chart below). Equities as a percentage of U.S. households' total non-financial assets is easily the highest since at least 1950. Interestingly, the correlation of S&P 500 component stocks has recently plunged to its lowest since at least 1980 as mega-cap tech stocks have come to dominate the market-cap weighted index. And according to the Commitment of Traders report, the net long position of Small Speculators (generally Dumb Money) in the S&P 500 index is close to its recent all-time high. The Shiller CAPE ratio of 42.2 is close to its all-time high from late 1999, and far above the high of 31.5 set in July 1929 just before the greatest stock market crash in U.S. history.



Hmm. Might it pay to tread cautiously here, to be a little circumspect or even skeptical? To ask a few questions before putting all of your portfolio into call options? Would it be prudent to consider if stocks are too expensive, or if investor sentiment is too high? How many investors are worried or scared right now, and could doing the opposite of what they're doing (by seeking safety) actually result in one of the most profitable trades? Has there been too much hype in the financial media, resulting in excessive capital investment that will become malinvestment that will eventually have to be realized and written down? Is it possible that many investors will suffer losses of as much as 95% on some of their largest holdings (as many did by the end of the Dot Com crash)? How many investors are wondering if that could even be a possibility? How many investors have noted the recent pricing war among (cash flow negative) AI firms, and have concluded that there's too much competition in the industry and that AI won't turn out to be nearly as profitable as they've been telling investors for years?

Caveat emptor!

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