NATURE OF THE GAME

Elongation, Not Alteration

There has been much debate and dialogue about the actions of the *Central Banks* and the *US Federal Reserve* in particular. The basic Opinion falls into two camps: Opposition to these actions; and Support for these actions. The real questions however, are what will be the ultimate affect of these actions, and what is their true purpose.

Across both sides, *Majority Opinion* is that these actions are ones of *"Control"*. Implicit in this belief – on either side – are important premises: ***That such control is possible and thus, secondly, they are willing to exercise that Control for the benefit of ?***

No Man – nor any group of Men - can control the Self-Interest of a multitude of Participant's across the World. Yet this is precisely what one has to believe to subscribe to the above premises and conclusions.

This is no more real than *Edward Norton's* apparition of *Sophie*.

Self-Interest can indeed be guided, directed and manipulated – *but not controlled* – and control is the operative element to postulate a particular outcome. Absent that, the outcome can only be elongated – not altered.

The Greed Equilibrium

One of the most illustrative and illuminating stories there ever was about *Greed* and *Self-Interest* comes from an anecdotal story from the legendary *John D. Rockefeller*. One day, a group of reporters gathered around *Rockefeller's* porch asked him: *" Sir, you are the richest man in the world – how much money is enough*" ? *Rockefeller* paused a moment and put two of his fingers together in a gesture and said: ***"Just a little bit more….***"

Participant's across all spectrums of involvement in Markets will pursue their interests to the farthest they can – *never will action be taken in the interest of the Collective. "Control"* is thus effectively belief that *Self-Interest* can be collectivized. It is folly to believe so – *and it is contrary to Human Nature itself.*

We have seen and heard many stories of *Greed* and *Avarice*, particularly compelling and insightful ones from various journalists and others. The are commendable in their revelations and their substance. Others rail, complain and condemn the *"Capitalist"* system, the *Manipulation, etc., ad hominem.*

Yet they miss the ultimate point – *what does one do with these ill-gotten gains* ? Do they take them and place them under the mattress, or do they quit Markets and live in the lap of luxury for the duration ? Most of us have heard the refrains from childhood – *anecdotally, biblically and societal* – that *Greed* always ends in downfall. *Rockefeller's* timeless wisdom tells all. They will take those very gains, and pursue them to the furthest gain they can.

Their own actions bring about the very outcome they sought to avoid in the Greed itself – This is The Greed Equilibrium.

We see this beautifully at play in the *Corporations vis-à-vis Globalization.* The corporations have pursued profit margins without fail, bringing them to their highest level ever – yet all the while have been eviscerating the very base upon which sustainability of those margins rests: *Employment.* We have reached the point that now *Structural Unemployment* will only get worse as we continue down the path of *Globalization.* Though collectively they know this road cannot end well – nobody will step up to act in the collective – their own *Self-Interest* prevents them from doing so. Concomitantly along the way, this very *Self-Interest* has built a *Political-Economic* structure that impedes decisive curative action.

This same dynamic is at play across all Markets, at all times, and in all places. This is the *Greed Equilibrium.*

Long Stories, Short Stories

It is established doctrine in Markets that *"Fundamentals"* drive valuations and direction. That they really matter. *"Fundamentals"* like *"Diversification"* is a fraud. Both perpetuated by those either incompetent or with an agenda. The dirty secret is that 99 % of *"Money Managers"* ***Cannot and Do Not*** outperform an *Indexed Position* over time. What would one call that ?

One can go back to any quarter of earnings reports – recently or as far back as one can get data and you will see this same story every single quarter, again and again:

One Company reports terrible results by the so-called tenets of *Fundamentalism,* i.e., *Margins, Volumetrics, Net Profit, and Forward Expectations*. Yet the stock rises dramatically. At the same time, another company has "*great news*" and "*beats*" on all of those same metrics – *and actually made money* – yet the stock falls. Never fails even in one quarter. There is no way to reconcile this indisputable fact, with the belief in *"Fundamentalism"*. *Once or twice maybe – but continuously throughout the history of all Markets, in all places ?*

Nature of the Game

The game in Markets is to *"Mark-Up" Instruments,* be they *Stocks, Bonds, Derivatives, Commodities,* etc. to the farthest point possible. This is done by the development, over time, of a Story. The *"Long Story"* is the easiest – and most conducive to *Human Nature*. ***People always want to believe.*** The story goes on and on. On the surface, it is lucrative, as the percentage gains mount and mount.

Eventually, there is nobody left to *"Buy"* the *"Long Story"* – everyone who would buy it, has already bought. *Volume* gets lower and lower on rallies, and bigger and bigger each sell-off. This is no different with respect to the Market as a whole.

Sell Dear

The legendary *Jesse Livermore* advised to *"Buy Cheap* and *Sell Dear*".

The problem is, once it becomes so *"Dear"* nobody ever can. Especially in those cases where the *"Long Story"* is so compelling – and *"Fundamentally"*, true. We see this contemporaneously – and exquisitely playing out in real time in *APPL*. The stock has advanced 5000 % - yet nobody wants to *Sell* – and it heresy to suggest Selling it – literally and figuratively. How *"Dear"* must it become ? Once again, the *"Greed Equilibrium"* at work as well. *"Just a little bit more"*……

"Sucker's" Bred, Not Born

Most have heard the famous words *"There is Sucker born every minute".*

In *Markets* however, they are bred, not born. Here again, *APPL* is illustrative. The current *Market Capitalization* of that stock will never be realized in actual money put in someone's' pocket. Who's got that money ? But that is not the point. So how do you monetize the *Billions of Dollars* at stake ?

At some point there won't be any more *"Buyers"* of that story. But the *"Suckers"* have been bred. ***They will Buy it all the way down.*** If is not a "*Sell"* at $ 360. – *My God*, it will be a great Buy at $ 200 – and a *steal* at $ 160 !!! They will cost average all the way down, slowly and ***inexorably giving back all the very gains they had 'On Paper' in the Mark-Up, until one day, they realize they have losses, not gains.*** Or perhaps it happens suddenly, as is the case sometimes, where the realization is rapid, and hence the *"Waterfall"* decline.

Forget INTC, CSCO, etc., – think Polaroid, Xerox, RCA and Air Reduction. ***Air Reduction ?*** You see my point ?

Nature of the Game

This is precisely what is at play collectively in *Markets Worldwide*. ***"Markets won't be permitted to go down."*** There is virtual unanimity not only that Markets can't fall – *but any downturn now, will only be corrective and a "Buying Opportunity". ' Only fools would Buy "Puts" or go "Short"': 99.9% of Positioning now confirms across Markets this Mindset as fact, not Opinion.*

A simple question tells all: *How much has ever been made "Buying" any stock or other Instrument ?*

The answer is: Zero. Nothing. Not a penny. As obvious as this is, it is something that is perpetually disregarded in the timeless ambit of *Market Participants* and their behavior. What has been occurring the last two years, particularly, is that *Sucker's* are being been bred to take the *S & P* all the way below 500. Not much more is required now. The objective was never to support Markets – only to convince *Participants* to *Buy* assets at over-inflated values – *and on Credit to boot* - so as to breed the *Sucker's*. ***This is what game is being played – and will be played all the way down.***

Livermore, Smith, Dow, von Mises & Rothbard

Some of the *Great Minds and Men* in Markets of yore are of course, *Jesse Livermore, Adam Smith, Charles Dow, Ludwig von Mises and Murray Rothbard.* Each of these Men teach many important points – but apropos to the matters at hand, they all teach one lesson – one which History validates ***without exception:***

Markets are bigger than any Individual or group of Individuals – and the ultimate outcome cannot be altered – because Nobody can Change the Nature of the Game.

There is no elixir or special power to permit entire Societies to live beyond their means indefinitely. I don't consider myself an *"Austrian"* or anything in that regard and *"Dow Theory"* – along with the others – are all useless. I wouldn't hang my hat – much less $ 1 Dollar on them. *Jesse* taught me that the only thing that matters is being on *"The Right Side"* – and crucially, that it is impossible for everyone to be on *"The Right Side" – they never have and never will be.*

Ironically, those *"Austrian"* adherents and proponents demonstrate part and parcel a lack of *Intellectual Fealty to von Mises and Rothbard*. For if you truly believe, as those men did and taught – that *the outcome is certain*, then regardless of propaganda to the contrary, *Ben Bernanke and the Federal Reserve* have to know that too. We keep hearing many derogatory remarks impugning both *Character* and *Intellect* – I venture no comment or *Opinion* on *Character* – but one thing is certain: these Men are as smart as they come – *can you create Trillions of Dollars ?*

They know exactly what they are doing and what the consequences are. They know they cannot change the *Nature of the Game* even if they wanted to. And why would they ? They are going to *"Buy"* all the way down to make everyone else a *Winner* ?

This is equivalent to believing the *"Casino"* is going to cover all *Participant's.* As prolific as the *Money Creation* has been, they couldn't ***even absorb 10 % of Downside in Markets.*** Believing this, gives new meaning to *"Delusion"*. The *"Flash Crash"* is vivid proof of this – for all to see. That is once again the *Inherent Fairness* of Markets – people are always *warned in advance* – ***there are always clear signs*** – but as *Jesse* explains, it is ***"Human Nature that always gets in the Way of Human Intelligence".*** We see this Classically now in the belief that "they" can *Control Markets.*

Indeed *Central Banks* are there to "protect" *Banks – inter alios* - ***<u>but not all of them</u>.*** There are far too many *"Money Changers"* – think *"Financialization"* - and their ranks are in the process of a considerable reduction. That "franchise" has gotten too widespread – yet none will part with it willingly.

In the end, all these so-called *"Gains"* will only have been *"On Paper".*

Nullification: The Invisible Hand

One hears the broad gamut of views on the so-called *"Quantitative Easing"*, with all it's names and incantations. But let us just call it *"Money Creation".* And contrary to propaganda and political agenda, it is not just the *United States* – it is all countries participating directly, or indirectly, in that game. Nobody has *"Clean Hands"* as the legal jargon goes – so any attack on the *Federal Reserve* ***per se***, is not well taken in that regard. Opinions and views on those matters dominate the Dialogue – but are irrelevant to the issue.

The issue is, that Interest Rates, Oil and Food Inflation have completely Nullified those actions, individually, and collectively in the past months.

This reflects a critical inflection point, and the most important *"Tell"* of all. Call it the *"Invisible Hand"* or what you will, but its occurrence and implications are without question. What it means is that any further *"Money Creation"* will be passed through directly to *Economies* worldwide. The principal ramifications are ruinous for *Corporate Profits* and will create *Political and Economic* instability – the latter of which, while subjective in each *Nation* and *Region* – will reach the breaking point in place by place, as each respective straw breaks the proverbial *Camel's Back.*

We have also heard that we will have *"Stagflation".* However, *"Stagflation"* first of all is <u>not an outcome</u>. As with the one of the most fundamental misconceptions in Markets - *"Sideways"* – neither are *"Outcomes"* – rather they are ***Temporal States Between Outcomes.*** That was what the '70's *"Stagflation"* was all about – a *Temporal State* before the final long Inflation. In the '70's *"Inflation"* could be passed through via *Wages*. With the *Wage Structure* of the world today vis-à-vis *Globalization,* the vehicle of pass-thru via *Wages* is impossible. Soon that reality will set in as well.

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This *Nullification* - and the realization with regard to *"Stagflation"* - has yet to register in the *Mindset of Markets,* which as explained, and plain to see, is certain *"Up"* is the only outcome possible. In view of this, and when one considers that if *"Money Creation*" has reached its limit – and yet on the other hand, it seemingly can't be stopped without *Economic Convulsion* - yet it will surely lead to *Political Convolution* – you realize that there is a *"Wiley Coyote"* moment coming – *precisely when is irrelevant.*