04.11.2022 - Hammurabi's Rule and the Bob Rubin Trade

(One note before I start this market update – we have revamped our website (www.painefinancialservices.com) and would love for you to take a look and give us your thoughts. Also, now that Covid is "over," I am starting to expand my business with new client lunches and dinners. Would be grateful for any friend or two you think would benefit from our service. The lunches/dinners make an excellent way to meet me and "just talk.")

Hammurabi was the 6th king of Babylon from about 1792 to 1750 BCE. From him we now have "Hammurabi's Code," one of the oldest set of surviving laws governing a kingdom and were inscribed on a stela in Babylon's temple of Marduk.* One of the codes was as follows:

if a builder builds a house and it falls and causes the owner to die, the builder shall be put to death.

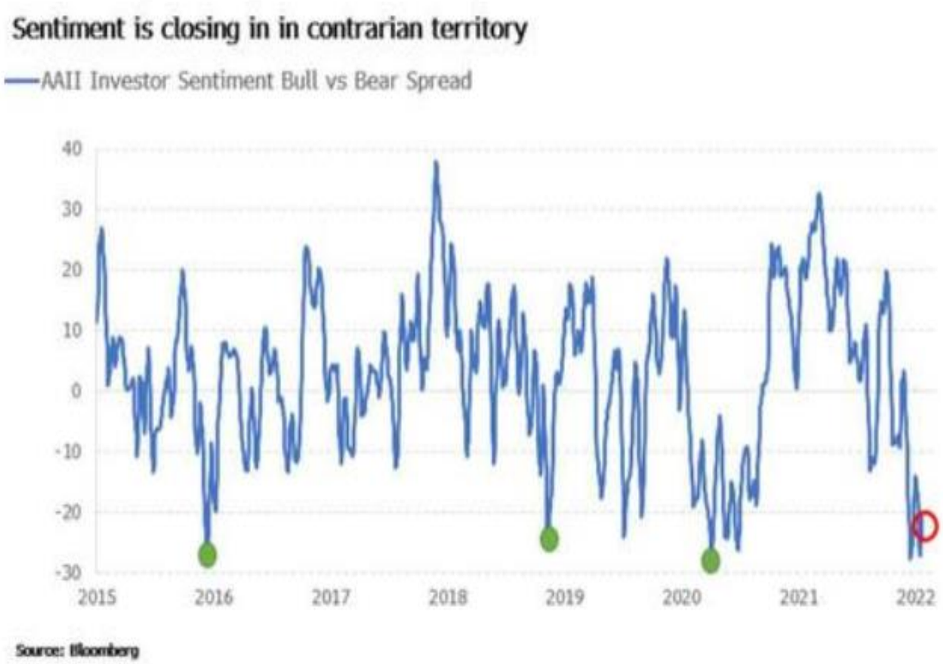
No need for a county department of planning and permits when codes like that are in force. The King came to my attention from my current book, "Skin in the Game – Hidden Asymmetries in Daily Life," by Nassam Talib, author of the well-known book, "The Black Swan." Both recommended. Talib comments on a number of asymmetries in life, i.e. situations where the risks are not borne by those that may profit and therefore create unbalanced conditions. One well know asymmetry in the public arena is the "Bob Rubin trade." You may remember Rubin as the treasury secretary under Clinton and then as director, senior counselor, and short time chairman at Citigroup before he resigned under heavy criticism in 2009.* In the "Bob Rubin Trade," he received $126 million during the run-up of the real estate bubble (including after Citigroup was bailed out) and had to pay nothing back after everything, including Citigroup, collapsed. The builder's building collapsed, the inhabitants suffered enormously, and no penalty was assessed. Doesn't sound fair, does it?

*https://www.britannica.com/biography/Hammurabi

^ https://en.wikipedia.org/wiki/Robert_Rubin

This leads me to our current situation in the stock and bond markets. The past 13 years in the markets may be the greatest "Bob Rubin" trade of all time. We've had a Federal Reserve that has kept interest at historically low rates. Adding to that, our federal government has continued to borrow money and put out into the world about $15 trillion more than has been received in taxes since 2008.* This has created an asymmetric situation for those that had money and were already in the stock/real estate markets or were able to borrow at low rates to finance businesses that, at "normal" rates, may never have gotten off the ground. A perfect example is Uber, the peer-to-peer taxi company. Uber created a website allowing people to get rides from other people instead of the traditional taxi system. It was genius. The only problem is, they have lost about $18 billion since inception. ^ The only way they can raise that kind of money to lose is because interest rates have been at 0% and people could focus on really, really, really long-term growth prospects because cash earned nothing. However, when rates start rising and the focus turns to companies that can actually turn a profit, companies like Uber start to plummet in value. Their stock price, like over 40% of the Nasdaq Index, was down 50% or more in the last year or so.^* The "asymmetry" is that the public bought into the tech "myth" of stock values going up forever while the builders (insiders) have gotten rich selling stock to the public. Many buildings have collapsed, and the builders haven't paid.

Unfortunately, few people have rules in place to prevent wholesale losses on their investments. So, they hold on for far longer than they should thinking, with any tick upward in price, their stock will someday get back to where they bought it, and then they will sell. In situations like we have now, usually they will be waiting a very long time.



https://datalab.usaspending.gov/americas-finance-guide/deficit/trends/

https://www.statista.com/statistics/995335/uber-net-income/p

^* Yahoo Finance and Sentiment Trader

The Russian-Ukrainian war still rages, gas prices remain high, inflation is ravaging the country, we are facing potential food shortages, the Fed is raising rates, and there does not seem to be an end to the bad news. Yet, the stock market had a huge rally beginning the day of the invasion (although it has cooled off quite a bit the past week or so). As I have said in the past, this is no different when the market rallied strongly during April and May of 2020 when the highest Covid death rates were being reported, unemployment was hitting massive record levels, economic lockdowns were taking hold all over the country, and economists were declaring us to be in recession. Note the picture of Jim Cramer with the streaming ticker at the bottom stating “more than 16 million Americans lost their jobs in the past 3 weeks” while the graphic at the top shows the Dow Index had its best weekly gains since 1938.

I know this sounds so counter-intuitive, and many still fight accepting this, but the market does not pay as much attention to these negative factors as so many believe. In fact, all these concerns only lend themselves to extreme negative sentiment which often marks major market bottoms. In other words, these issues really just don't matter to Mr. Market. All the market really cares about is where we are in the sentiment trend.

I could show you a number of “negative” charts that would prove why the markets have gone down this year and cause all of us to feel like they will continue downward. Instead, I’m going to focus on this recent one from Bloomberg showing sentiment today (red circle) is near the lows reached in late 2015, late 2018, and March 2020. Each of those time periods had high volatility and also marked significant bottoms in the stock market.

Just to be clear, I am not a Pollyanna*on the stock and bond markets. I believe it is going to be a bit of a struggle over the next few months as investors “come to grips” with rising interest rates, although I don’t believe they are going as high as most think. We remain in a conservative mode in terms of allocations and am now I’m watching the 4400 level in the major indexes for support. I believe we have one more good run in this market (with gyrations along the way), although I think the leaders will be companies that were mostly laggards for much of the past 13 years. We have a good portion of our money invested in those “laggards” at the Nationwide Advisory platform and that has served us well so far this year. We shall see whether that continues.

https://charlottemuseum.org/pollyanna-by-eleanor-porter/

I will be out of town from April 12 – April 19th, although I’m never far from emails and calls on my phone and will still be watching the markets (yes, I can trade from anywhere). Please let Deena know if you need anything.

Enjoy,

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