

olicy. In what we would consider to be a therapeutic exercise, *22 Troublesome Facts* is a review of some of the bigger issues that continue to hold our attention. Our conclusion remains that investor decision-making, as in other recent episodes of clear misjudgment, is only coherent within the context of the alternate reality the Federal Reserve has created. The problem with alternate realities is that they only exist in Hollywood. Links to more information are provided for some facts. If you wish to read more on any of the topics raised here, please contact us. **herd. Equity/Bond Valuations**

- The S&P 500 Cyclically Adjusted Price to Earnings (CAPE) valuation has only been greater on one occasion, the late 1990s. It is currently on par with levels preceding the Great Depression.
- CAPE valuation, when adjusted for the prevailing economic growth trend, is *more* overvalued than during the late 1920s and the late 1990s. ([LINK](#))
- S&P 500 Price to Sales Ratio is at an all-time high
- Total domestic corporate profits (w/o IVA/CCAdj) have grown at an annualized rate of .097% over the last five years. Prior to this period and since 2000, five year annualized profit growth was 7.95%. (note- period included two recessions) ([LINK](#))
- Over the last ten years, S&P 500 corporations have returned more money to shareholders via share buybacks and dividends than they have earned.
- The top 200 S&P 500 companies have pension shortfalls totaling \$382 billion and corporations like GE spent more on share buybacks (\$45b) than the size of their entire pension shortfall (\$31b) which ranks as the largest in the S&P 500. ([LINK](#))
- Using data back to 1987, the yield to maturity on high-yield (non-investment grade) debt is in the 3rd percentile. Per Prudential as cited in the Wall Street Journal, yields on high-yield debt, adjusted for defaults, are now lower than those of investment grade bonds. Currently, the yield on the Barclays High Yield Index is below the expected default rate.
- Implied equity and U.S. Treasury volatility has been trading at the lowest levels in over 30 years, highlighting historic investor complacency. ([LINK](#))

U.S. Economy

- Real GDP has grown 1.97%, .83% and .69% over the last 3, 5, and 10 years respectively.
- The Federal Reserve forecast for real GDP is 2.05% and 1.90% for 2018 and 2019
- Federal Government Debt to GDP is 105.86%, almost 2x higher than year-end 2000. 720Global optimistically forecasts it to be 130% within ten years. ([LINK](#))
- Government deficits are forecast to grow at 3x the rate of GDP through 2027
- At \$8.6 trillion, corporate debt levels are 30% higher today than at their prior peak in September 2008
- At 45.3%, the ratio of corporate debt to GDP is at historical highs having recently surpassed levels preceding the last two recessions.
- Total Government and private debt per household is \$329,000 ([LINK](#))
- Productivity growth (TFP) continues to fall and is quickly approaching zero. It is currently in decline in many developed economies.

- In 2016, the first baby boomers turned 70 marking an acceleration point for retiring workers and those taking retirement distributions. 10,000 boomers are now retiring daily, which adds pressure to fiscally unstable government programs such as Medicare and Social Security.
- Massively underfunded state and local pension funds. According to a Hoover Institute study published in May 2017, current pension shortfalls total over \$3.8 trillion versus the GASB cited shortfall of \$1.3 trillion. ([LINK](#)) ([LINK](#))

Federal Reserve

- Fed Funds have been pinned at or below 1% since 2009. Prior to this time period, it had only been below 1% for one quarter in the 1950's.
- The Fed's balance sheet remains almost six times larger than the pre-crisis levels which serves to distort the price of money and the transmission mechanism between borrowing, lending and Fed policy.
- Despite having exited 'crisis conditions' long ago, Fed policy remains far too accommodative via ultra-low rates and a disfigured balance sheet encouraging vast misallocation of global capital. ([LINK](#))
- Based on formal published documents from the Federal Reserve regarding policy strategy and goals, the Fed remains incoherent on their objectives and the means used to achieve them. ([LINK](#))

Paying soaring valuations in such an environment is, to put it mildly, complacent.

Definition of COMPLACENCY

plural complacencies

- 1 : self-satisfaction especially when accompanied by unawareness of actual dangers or deficiencies • When it comes to safety, *complacency* can be dangerous.
- 2 : an instance of usually **unaware** or uninformed self-satisfaction

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