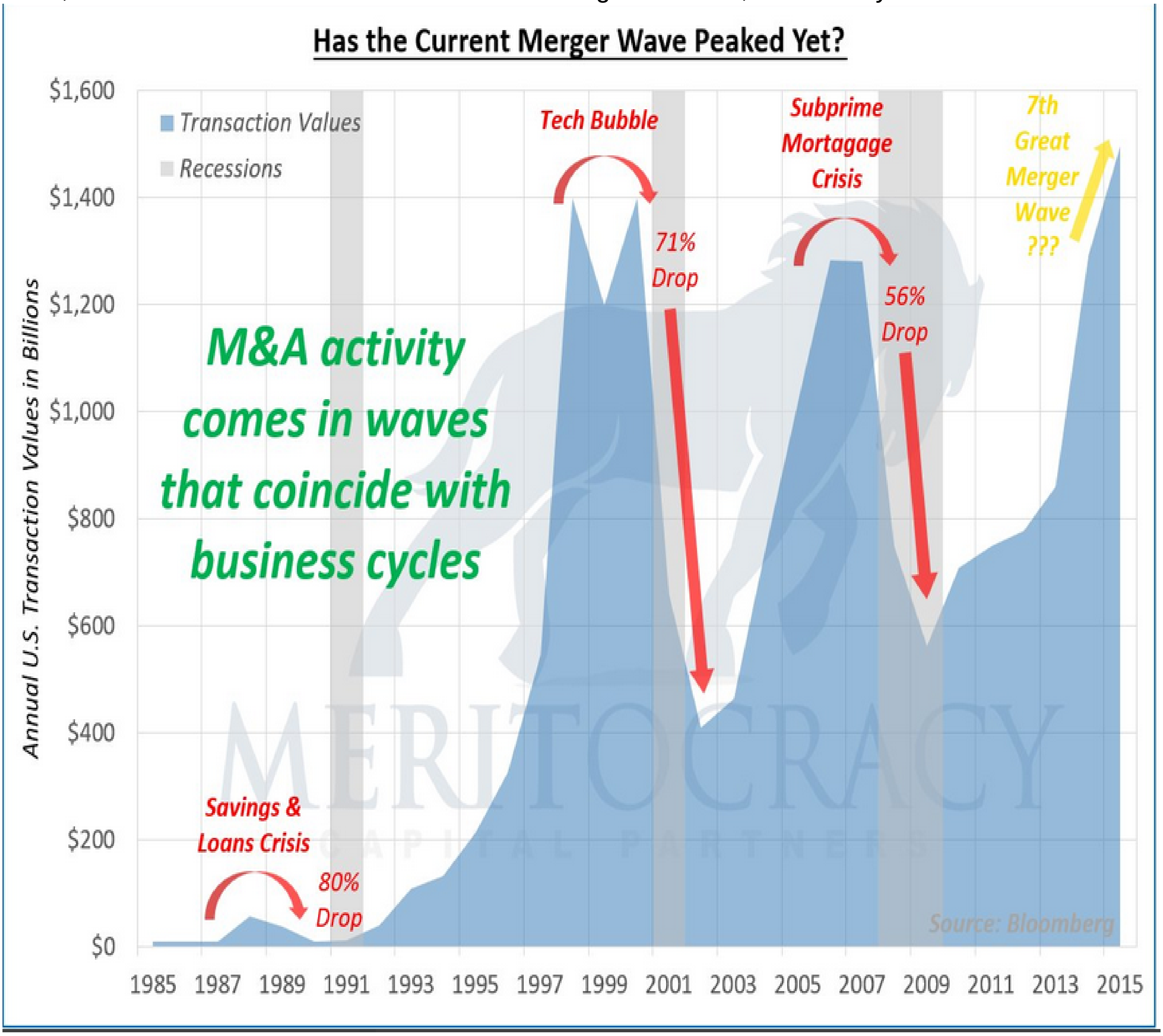
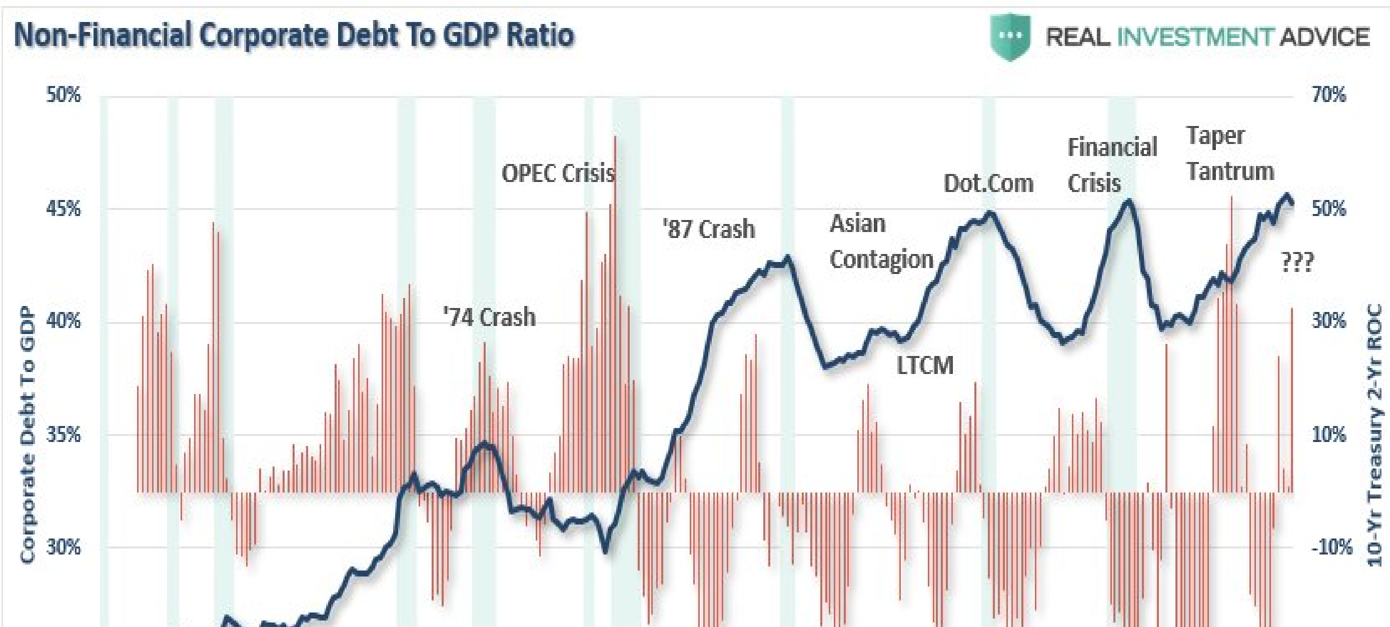
On May 24, 2018, Paul La Monica penned an article for CNN Money entitled [Companies have spent a stunning $2 trillion on mergers so far this year](). The article notes that in 2018 merger activity has hit a feverish pitch fueled by ?*healthy balance sheets and strong share prices*.? While somewhat true we think it is important to tell the whole story. We have written numerous articles describing how cheap money and poorly designed executive compensation packages encourage corporate actions that may not be in the best interest of longer-term shareholders or the economy. The bottom line in the series of articles is that corporations, in particular shareholders and executives, are willing to forego longer term investment for future growth opportunities in exchange for the personal benefits of short-term share price appreciation. Buybacks and mergers, both of which are fueled by the Federal Reserve?s ultra-low interest rate policy have made these actions much easier to accomplish. On the other hand, corporate apologists argue that buybacks are simply a return of capital to shareholders, just like dividends. There is nothing more to them. Instead of elaborating about the longer term ill-effects associated with buybacks or the true short-term motivations behind many mergers, the powerful simplicity of the following two graphs stands on their own. The first graph, courtesy Meritocracy, shows how mergers tend to run in cycles. Like clockwork, merger activity tends to peak before recessions. Not surprisingly, the peaks tend to occur after the Federal Reserve (Fed) has initiated a rate hike cycle. The graph only goes through 2015, but consider there has been $2 trillion in mergers in 2018, and its only June.



The following graph shows how corporate borrowing has accelerated over the last eight years on the back of lower interest rates. Currently, corporate debt to GDP stands at levels that accompanied the prior three recessions.



There is a pattern here among corporate activities which seems similar to that which we see in investors. At the point in time when investors should be getting cautious and defensive as markets become stretched, they carelessly reach for *more* return. Based on the charts above, corporate executives do the same thing. The difference is that when an investor is careless, his or her net worth is at risk. A corporate executive on the other hand, loses nothing and simply walks away and frequently with a golden parachute. Being a good steward of wealth is most difficult when everyone else is chasing the bubble. Corporate executives are no exception. Their actions may seem harmless as the economy is growing and the market steadily rises, but the last two recessions demonstrate that the wreckage of poor corporate decision-making falls mostly on workers and investors in the guilty companies. This time will be no different; the only question is how much higher does the Fed need to boost interest rates before the consequences of their actions become obvious? Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Fed's Powell Orchestrates A Masterful Move** by Danielle DiMartino-Booth via Money Strong
- **Is The U.S. The World's Piggy Bank?** by Caroline Baum via MarketWatch
- **Social Security Crisis Already Here** by IBD
- **Is The Fed Rethinking It's Balance Sheet Unwind** by Mike Shedlock via The Maven
- **Side Hustles Changing How Retirement Planning** by Daniel Kline via Motley Fool
- **If Economy Is So Great, Why Are 78 Million Working Gigs** by Rex Nutting via MarketWatch
- **Fed's Phillips Curve Isn't Dead** by John Tamny via RCM
- **Trump Economy Doing Just Fine** by Peter Morici via MarketWatch
- T**he Facts On U.S. - Canada Trade** by Patrick Hill via The Progressive Ensign
- **$5089 - Why Trumps Tariffs Worry Automakers•** by Johnny Kampis via American Spectator
- **Tight Labor Market Should Increase Wages** by Noah Smith via Bloomberg
- **Americas Fertility Problem, Not A Problem** by Adair Turner via Project Syndicate
- **ECB Volatility, Business Building And Speculation** by Seth Levine via The Integrating Investor
- **Recession Alert: World Headed For Slowdown** by Dwaine Van Vuuren via Financial Sense
- **How Good Is The Trump Economy Really?** by Neil Irwin via The Upshot
- **Trumps Tariffs Are Succeeding - In Upsetting Everyone** by Editorial via USA Today

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Markets

- **Someone Just Made A $75 Bet Gundlach Is Wrong** by Tyler Durden via ZeroHedge
- **How To Weather The Next Market Correction** by Shawn Langlois via MarketWatch
- **Global Earnings Recession All But Certain•** by Adem Tumerkan via Palisade-Research
- **JP Morgan: US Losing Fiscal Discipline A Huge Risk For Markets** by Pedro De Costa via BI
- **A Deep Look Inside The GIG Economy** by Simon Constable via Forbes
- **Yields Retreat As ECB Lays Out Timetable For QE's End** by Mark DeCambre via MarketWatch
- **An Average Rally** by Dana Lyons via The Lyons Share

- **Goldman: The Past Month Has Been A Giant Short Squeeze** by Tyler Durden via ZeroHedge
- **Fed Policy Close To Contractionary, Bull Market Close To End** by Upfina
- **Here We Go Again...** by Charles Hugh Smith via Of Two Minds
- **It Can Happen To Anyone** by Nick Maggiulli via Dollars and Data
- **Either GE, Or It's Dividend, Is Set To Shrink** by Ironman via Political Calculations
- **Why Momentum Investing Is Actually Contrarian** by Ivaylo Ivanov by Ivanhoff Capital

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Most Read On RIA

- **The Myth Of Buy And Hold Investing - Part II** by L. Roberts, M. Lebowitz & J. Coumarianos
- **The Risks To Our Bullish View** by Lance Roberts
- **Monthly Fixed Income Update** by Michael Lebowitz
- **Pascal's Wager: Why Stocks Get More "Risky" Over Time** by Lance Roberts
- **The Importance Of "Sequence Of Return Risk"** by John Coumarianos
- **9-Minutes To Change Your Financial Life** by Richard Rosso

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Research•/ Interesting•Reads

- **Fed Grows More Hawkish** by Wolf Richter via Wolf Street
- **Buffett: Balderdash With A Side Of Hypocrisy** by Felix Salmon via Slate
- **10-Best Universities In The World** by Abigail Hess via CNBC
- **What Lunch With Buffett Taught Me About Investing & Life** by Guy Spier via MarketWatch
- **The Hallmark Of An Economic Ponzi Scheme** by John Hussman via Hussman Funds
- **Retirement Cut Proposals & Federal Employment** by Dan Caplinger via Motley Fool
- **Lessons From West Point That Can Make You A Better Investor** by Moose via MarketWatch
- **Maybe You're Asking The Wrong Questions** by Scott Bell via I Heart Wall Street

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> ***? The stock market is the story of cycles and of the human behavior that is responsible for overreactions in both directions." - Seth Klarman***

Questions, comments, suggestions ? please email me.