



Weekend Reading

The Next Big Bubble

If you're a frequent reader, you've noticed that we often find fault with the one-sided manner in which the mainstream media reports on economic topics and the asset markets. Of chief concern to us, the cheerleading for the markets and the economy fails to provide readers with the other side of the story. The fact is the economy and financial markets have been propelled higher since the financial crisis of 2008 by historically low interest rates, large fiscal deficits and a massive expansion of the Federal Reserve's (Fed) balance sheet. We agree the monetary and fiscal policy prescriptions helped at the time, but we believe the ultimate consequences of these actions have yet to be felt. We have written volumes on this topic. We thought it appropriate to share an article published by the *mainstream* Washington Post. [**The Buyback Economy and the Next Big Bubble**](#), by Steven Pearlstein, was published June 10, 2018. This "must-read" article focuses on many of our concerns such as stock buybacks, high debt levels, ETF's and, importantly, Pearlstein's assertion that:

?Today's economic boom is driven not by any great burst of innovation or growth in productivity.?

To be honest, we could not have written it better ourselves, and we thank Mr. Pearlstein for providing the other side of the story. Following are a few important paragraphs from Mr. Pearlstein's article. Beneath each of these are links to articles that elaborate on these points.

Buybacks/Productivity

*And once again, they are diverting capital from productive long-term investment to further inflate a financial bubble ? this one in corporate stocks and bonds ? that, when it bursts, will send the economy into another recession. ? Welcome to the Buyback Economy. **Today's economic boom is driven not by any great burst of innovation or growth in productivity.** Rather, it is driven by another round of financial engineering that converts equity into debt. It sacrifices future growth for present consumption. And it redistributes even more of the nation's wealth to corporate executives, wealthy investors and Wall Street financiers. ?*

[Short-Term Pain, Long-Term Gain](#) [The Death of a Virtuous Cycle](#) **Corporate Debt**

The most significant and troubling aspect of this buyback boom, however, is that despite record corporate profits and cash flow, at least a third of the shares are being repurchased with borrowed money, bringing the corporate debt to an all-time high, not only in an absolute sense but also in relation to profits, assets and the overall size of the economy. ?

[The Coming Collision of Debt & Rates](#) [How Corporate Debt Confirms the Everything Bubble](#) **Debt**

For the bigger reality is that the global economy is now awash in debt ? not just corporate debt but also record amounts of government debt, household debt and investor debt ? at a time when interest rates are rising from historically low levels. ?

[The Lowest Common Denominator](#) **Margin Debt and Valuations**

Finally, there is the debt that investors large and small take on to buy stocks, bonds, derivatives and other securities. That's also at an all-time high. ?

Courtesy Doug Short/Advisor Perspectives ? [Margin Debt and the Market](#) [The Risk Of Algo's A Market Valuation that Defies Comparison](#) **ETF's**

"It's hard to say what will cause this giant credit bubble to finally pop. A Turkish lira crisis. Oil prices topping \$100 a barrel. A default on a large BBB bond. A rush to the exits by panicked ETF investors. Trying to figure out which is a fool's errand. Pretending it won't happen is folly."

[The Inconsistencies Lurking in ETFs ? Judgement Awaits Part 2](#) **Summary/Animated Video**• We end with a short animated video that explains how debt has replaced the virtuous economic cycle. While simple, it will help put Mr. Pearlstein's article and our links into perspective. [The Animated Virtuous Cycle](#) Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Why Immigration Is Pure Gravy For Finances** [by Caroline Baum via MarketWatch](#)
- **"Trade War" Sees Chinese Investments In US Plunge By 92%** [by Tyler Durden via ZeroHedge](#)
- **Is The Fed Rethinking It's Balance Sheet Unwind** [by Mike Shedlock via The Maven](#)

- **The Phony Labor Shortage**[by Jeffrey Snider via Alhambra Partners](#)
 - **America's Debt Dependence Makes It An Easy Target**[by Brandon Smith via Alt-Market](#)
 - **If You Like The Economy, You're Republican**[by Ben Casselman & Jim Tankersley via NYT](#)
 - **Economy Is NOT An Engine**[by IBD](#)
 - **How Tariffs Could Sink The Market**[by Paul Whitfield via IBD](#)
 - **Why Heads Are Exploding At The Fed**[by Peter Morici via MarketWatch](#)
 - **Unhappy With China, Trump Takes Anger Out On U.S.**[by John Tamny via RCM](#)
 - **The Real Cost Of A Trade War**[by Mukhisa Kituyi via Project Syndicate](#)
 - **Universal Basic Income, What's The Plural Of Apocalypse**[by Wayne Crews via Forbes](#)
 - **Will A Trade War Derail The Economy?**[by James Picerno via Capital Spectator](#)
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Markets

- **The Greatest Short Squeeze In History**[by Tyler Durden via ZeroHedge](#)
 - **Jim Mellon: This The Start Of A Major Correction**[by Shawn Langlois via MarketWatch](#)
 - **Markets Ignore Rise Of Global Earnings Recession**[by Adem Tumerkan via Palisade-Research](#)
 - **5-Reasons To Own Gold**[by Simon Constable via Forbes](#)
 - **What Walgreens May Mean For The Dow**[by Mark DeCambre via MarketWatch](#)
 - **Active Managers Go "All In" ...Again**[by Dana Lyons via The Lyons Share](#)
 - **Implicit Dangers Of Passive Investing**[by Derek Bergen via Value Expectations](#)
 - **The #1 Rule Of Investing**[by Charlie Bilello via Pension Partners](#)
 - **Visualizing The Longest Bull Markets In History**[by Jeff Desjardins via Visual Capitalist](#)
 - **The Trouble With Being A Bear**[by Brian Maher via The Daily Reckoning](#)
 - **Investors Fret A Trade War, But Stay Invested**[by Peter Eavis via NYT](#)
 - **Yes, This Bull Market Will End**[by Jared Dillian via MarketWatch](#)
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Most Read On RIA

- **The Myth Of Buy And Hold Investing - Part III**[by L. Roberts, M. Lebowitz & J. Coumarianos](#)
 - **The Drums Of "Trade" War**[by Lance Roberts](#)
 - **Risk Happens Fast**[by Doug Kass](#)
 - **Q1-Earnings Review & The Risk To Estimates**[by Lance Roberts](#)
 - **Is Your Target Date Fund Too Risky?**[by John Coumarianos](#)
 - **How To Protect Your Senior Parents From Scams**[by Richard Rosso](#)
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Research•/ Interesting•Reads

- **Smart Money Gets Ready For Next Credit Event**[by Wolf Richter via Wolf Street](#)
- **Investing Without People**[by Howard Marks via OakTree Capital](#)
- **White Deaths Outnumber Births For 1st Time In History**[by Tyler Durden via ZeroHedge](#)
- **How Big Is Your Alpha?**[by Rob Arnott via Research Affiliates](#)
- **Will Re-Defaults Undermine Housing**[by Keith Jurow via Advisor Perspectives](#)
- **Are We In A Corporate Debt Bubble?**[by Susan Lund via Project Syndicate](#)
- **Don't Rush To Take Social Security**[by Dan Caplinger via Motley Fool](#)

- **It Ain't What You Don't Know That Gets You In Trouble** [by Cliff Asness via AQR Capital Mgmt](#)
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? The stock market is a device for transferring money from the impatient to the patient." - Warren Buffett

Questions, comments, suggestions ? please [email me](#).