Introduction

2013 Year in Review: A Beautiful Deleveraging or the Great Deformation?

David B. Collum
Cornell University
November 20, 2013

*The seminar is posted on my group website: http://collum.chem.cornell.edu/dbc6/DBC_rogue.html
"Dear Cornell students: don’t learn economics from your chemistry professor"

--Matt Yglesias, Slate--
Resume and Credentials…..(crickets)

"Dear Cornell students: don’t learn economics from your chemistry professor"
--Matt Yglesias, Slate--

"I can think of no one better than you, Dave, to fill the void of an increasingly undistinguished profession of economists. They have excellent judgement at Cornell.”
--Stephen Roach, former Executive Director at Morgan Stanley--
Investing

Standard Portfolio
60% stocks
40% bonds
Investing

Standard Portfolio
60% stocks
40% bonds

Dave’s Portfolio
1980-1988: nothing but bonds
1988-1999: stocks and bonds
1999-present:
• 0 ➔ 50% precious metals
• 100 ➔ 25% cash
• 0 ➔ 25% energy
01/01/00-12/31/12

- S&P 500: 0% compounded
- Dave: 11% compounded
Investing

01/01/00-12/31/12
• S&P 500: 0% compounded
• Dave: 11% compounded

01/01/13-today
• S&P 500: 25%
• Dave: -10%
Investing

01/01/00-12/31/12
• S&P 500: 0% compounded
• Dave: 11% compounded

01/01/13-today
• S&P 500: 25%
• Dave: -10%

*Stocks boomed; gold busted. Period/full stop.
The Bear Case: Monsters Under My Bed
The Bear Case: Monsters Under My Bed

- Warren Buffett
The Bear Case: Monsters Under My Bed

- Warren Buffett
- Demographics
The Bear Case: Monsters Under My Bed

• Warren Buffett
• Demographics
• Unfunded Liabilities

$200 trillion
The Bear Case: Monsters Under My Bed

- Warren Buffett
- Demographics
- Unfunded Liabilities

$200 trillion
100 million taxpayers
The Bear Case: Monsters Under My Bed

- Warren Buffett
- Demographics
- Unfunded Liabilities

$200 trillion
100 million taxpayers
$50,000 per year salary
The Bear Case: Monsters Under My Bed

- Warren Buffett
- Demographics
- Unfunded Liabilities

- $200 trillion
- 100 million taxpayers
- $50,000 per year salary
- 50% more of our pay
The Bear Case: Monsters Under My Bed

- Warren Buffett
- Demographics
- Unfunded Liabilities

$200 trillion
100 million taxpayers
$50,000 per year salary
50% more of our pay
80 year payback
The Bear Case: Monsters Under My Bed

- Warren Buffett
- Demographics
- Unfunded Liabilities

$200 trillion

100 million taxpayers

$50,000 per year salary

50% more of our pay

80 year payback

*Somebody is going to get really screwed.*
It’s the economy, stupid!
It’s the economy, stupid!
It’s the economy, stupid!

• Housing
It’s the economy, stupid!

- Housing
- Unemployment
It’s the economy, stupid!

- Housing
- Unemployment
- Inflation
It’s the economy, stupid!

- Housing
- Unemployment
- Inflation

Where’s the inflation?
It’s the economy, stupid!

- Housing
- Unemployment
- Inflation

Velocity of money is at record lows
It’s the economy, stupid!

- Housing
- Unemployment
- Inflation

Maybe they’re not looking for inflation
It’s the economy, stupid!

- Housing
- Unemployment
- Inflation

Maybe they’re not looking for inflation
Debt: Why is debt bad?
Debt: Why is debt bad?

• Saving is deferred consumption
Debt: Why is debt bad?

- Saving is deferred consumption
- Debt is pulling consumption forward
Debt: Why is debt bad?

- Saving is deferred consumption
- Debt is pulling consumption forward
- Let’s stimulate Ithaca!
Debt: Why is debt bad?

- Saving is deferred consumption
- Debt is pulling consumption forward
- Let’s stimulate Ithaca!
- Austerity is not a policy
Debt: Why is debt bad?

• Saving is deferred consumption
• Debt is pulling consumption forward
• Let’s stimulate Ithaca!
• Austerity is not a policy

Debt sucks cause ya gotta pay it back!
Debt

- Personal Savings
Debt

• Personal debt
Debt

- Personal debt
- Student debt

Federal Loans to Students
Recessions Highlighted

The two callouts are for Q4 2007 and Q2 2013. The loan balance has risen 503%, most of which dates from after the last recession.

Note: Federal loans to students account for less than half the student loan total.
Debt

- Personal debt
- Student debt
It’s the economy, stupid!

- Personal debt
- Student debt
- Municipal debt
It’s the economy, stupid!

- Personal debt
- Student debt
- Municipal debt
- Corporate debt
It’s the economy, stupid!

- Personal debt
- Student debt
- Municipal debt
- Corporate debt
- Sovereign debt
Precious metals: Are they *really* precious?
Precious metals: Are they really precious?

- Price Action
Precious metals: Are they really precious?

• Price Action
Precious metals: Are they really precious?

- Price Action

"People only want to be contrarians when it's popular."
—Rick Rule—
Precious metals: Are they really precious?

- Repatriation
Precious metals: Are they *really* precious?

- Repatriation
- India import duties
Precious metals: Are they *really* precious?

- Repatriation
- India import duties
- ABN Amro defaults
Precious metals: Are they *really* precious?

- Repatriation
- India import duties
- ABN Amro defaults
- Goldman: “Short!”
Precious metals: Are they really precious?

- Repatriation
- India import duties
- ABN Amro defaults
- Goldman: “Short!”
- Gold gets crushed!
Precious metals: Are they really precious?

- Repatriation
- India import duties
- ABN Amro defaults
- Goldman: “Short!”
- Gold gets crushed
- Greece liquidates
Precious metals: Are they really precious?

- Repatriation
- India import duties
- ABN Amro defaults
- Goldman: “Short!”
- Gold gets crushed
- Greece liquidates
- Gold gets crushed
Precious metals: Are they really precious?

- Is it game over?

[Graph showing the 1 Year XAU Index from Nov 19, 2012 to Nov 19, 2013]
Precious metals: Are they really precious?

- Is it game over?
- Physical liquidations
  *Gold ETF*
Precious metals: Are they really precious?

- Is it game over?
- Physical liquidations!
  *Gold ETF
  *Comex
Precious metals: Are they really precious?

- Is it game over?
- Physical liquidations!
  * Gold ETF
  * Comex
  * JP Morgan
Precious metals: Are they *really* precious?

- Is it game over?
- Physical liquidations!
  *Gold ETF
  *Comex
  *JP Morgan
  *ABN Amro
Precious metals: Are they *really* precious?

"Gold bugs are frequently jerks. This drop vindicates the economic ideas of the economic elites."

--Joe Weisenthal, *Business Insider*--
Precious metals: Are they *really* precious?

- What’s wrong with this picture?
Precious metals: Are they really precious?

- What’s wrong with this picture?
- Isn’t this backwards?
Precious metals: Are they *really* precious?

- Repatriation?
- India?
- Gold ETF?
- ABN Amro?
- Where’s it going?
Precious metals: Are they really precious?

• China!

2013 numbers are through August. We know September numbers were down slightly. August was China’s second highest import month this year. The rest of the numbers are annual numbers.
Precious metals: Are they *really* precious?

- China!
- Switzerland
- Northern Europe
- Vietnam
- Hong Kong
- Russia
- Middle East
- Germany
- Venezuela
- Most central banks!
Precious metals: Are they really precious?

- Gold is moving from West to East
- West failed to demonetize it
- Yes. Gold may be very precious
The Federal Reserve

Price Discovery
• supply and demand meet at price
• How about really big markets?
The Federal Reserve

Price Discovery
• supply and demand meet at price
• How about really big markets?

Enter the Federal Reserve
• Banking cartel
• Two mandates
• capital markets
• New era price discovery
• Elephants and the Fatal Conceit
### Baptists and Bootleggers

<table>
<thead>
<tr>
<th>Baptists</th>
<th>Bootleggers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• David Stockman</td>
<td>• Greenspan and Bernanke</td>
</tr>
<tr>
<td>• Ray Dalio</td>
<td>• All central bankers</td>
</tr>
<tr>
<td>• Kyle Bass</td>
<td>• Jamie Dimon</td>
</tr>
<tr>
<td>• James Grant</td>
<td>• Paul Krugman</td>
</tr>
<tr>
<td>• Bill Gross</td>
<td>• Department of Justice</td>
</tr>
<tr>
<td>• Paul Volcker</td>
<td>• Barack Obama</td>
</tr>
<tr>
<td>• Elizabeth Warren</td>
<td>• NSA</td>
</tr>
<tr>
<td>• Ron Paul</td>
<td>• Skynet</td>
</tr>
<tr>
<td>• Edward Snowden</td>
<td>• Nobel Committee</td>
</tr>
<tr>
<td>• Market shorts</td>
<td>• Carlos Danger</td>
</tr>
<tr>
<td>• The Constitution</td>
<td>• Congress</td>
</tr>
</tbody>
</table>
Europe

• Club Med
• Youth unemployment
• Poland
• Greece
• Cyprus
• Watch for bar fights
Asia

- Fukushima
- Japanese Demographics
- Chinese bubbles
What should *you* do?

- Don’t worry about this stuff yet
- Focus on your careers
- Find your passion
- Learn to write well
- Get out of debt
- Stay out of debt
- Save
- Define your single most important goal
- Two maxims of stress release
- Read death bed regrets
- Read history and psychology
Books and Audiophilia

*Millionaire Next Door* by Stanley and Danko  
*Steve Jobs* by Walter Isaacson  
*Moneyball* by Michael Lewis  
*Made to Stick* by Chip Heath  
*Blink* by Malcolm Gladwell  
*Thinking Fast and Slow* by Daniel Kahnemann  
*Clash of Economic Ideas* by Lawrence White  
*Unbroken* by Laura Hillenbrand  
*The Great Influenza* by John Barry  
*The Battle of Bretton Woods* by Benn Steil  
*Wealth of Nations* by Adam Smith  
*Fatal Conceit* by Frederich Hayek  
*The No Asshole Rule* by Robert Sutton  
*Great Courses* by The Teaching Company
Acknowledgements

Edward B. Collum
11/20/27-8/1/13

*The seminar is posted on my group website:
http://collum.chem.cornell.edu/dbc6/DBC_rogue.html