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Storm Clouds on the Horizon

In a previous piece “Bubble, Bubble, Toil & Trouble,” we urged investors to “stick to the facts and let the witches drink their own brew.” Otherwise, like Macbeth, they risk bringing double the amount of trouble down upon themselves.

Now we find support for our opinion from Star mutual fund manager John Hussman, president of Hussman Investment Trust. He feels “financial markets are establishing an extreme (valuation) that we expect investors will remember for the remainder of history joining other memorable (dates) that include 1906, 1929, 1937, 1966, 1972, 2000 and 2007.” This is a veritable rogues’ gallery of financial panics, collapses and meltdowns.

When this occurs, the primary culprit will be willful ignorance on the part of investors. Quoting Hussman again, “the failure to recognize this moment as historic is largely because investors have been urged [by central bankers] to believe things that aren’t true, have never been true, and can be demonstrated to be untrue across a century of history.” It is this willing “suspension of disbelief” (defined by Wikipedia as: suspension of judgement concerning the implausibility of a narrative) that the Fed really can boost financial asset prices by mere sleight of hand, that will result in many investors whole lives evaporating in a moment. There is irony here though, quoting Rudi Dornbusch, a German economist who worked most of his life in the United States at

MIT, “The crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought.... It took forever and then it took a night.”

Therefore, when this crash does occur, most investors will bemoan the fact that no one saw it coming. In point of fact, it’s been a very long time coming (6½ years or 80 months of zero interest rates to be exact) and the fact that no one wants to see this is very much part of the problem. The only reason central bankers have been able to get away with this for so long is because investors are willing to play along with them.

To close with a quote from legendary investor Jim Rogers, co-founder of the Quantum Fund with George Soros “the people at the Fed are just academics and bureaucrats; they don’t know what they’re doing.” If they don’t, maybe you should.

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